IV. EVALUATION OF BANK/CDFI PARTNERSHIP OPPORTUNITIES

Banks should carefully review prospective relationships with CDFIs. In particular, they should evaluate the CDFI's service area relative to the bank's CRA assessment area(s) and perform appropriate due diligence to address potential risks and maximize the economic outcomes.

Legal, tax, and accounting advisors should be consulted when evaluating CDFI investment opportunities.

A. Identifying Potential CDFI Partners

Community banks interested in partnering with a CDFI often take important steps to help make sure that the partnership will be valuable to their organization, first considering their business strategy and target geographic area.

To help identify CDFIs serving their assessment area(s) or the broader statewide or regional area that includes their assessment area(s), institutions can reference the list of certified CDFIs by type and state that is available on the CDFI Fund's website. These certified CDFIs meet the standards set by the CDFI Fund and are eligible for CDFI programs. Certification is not an indication of their financial performance or credit soundness. Direct consultation with potential CDFI partners is also generally a critical part of the identification process.

A bank may consider whether to partner with a CDFI that can support a bank's business lines. For example, a commercial bank may partner with a CDFI that specializes in microloans, expecting that the CDFI may help to grow businesses that could later become commercial borrowers of the bank.[35] Another strategy is for a bank to seek a CDFI partner to help satisfy lending needs that the bank does not generally meet. For example, a commercial bank that does not make personal loans may invest in a CDFI that makes small-dollar loans to consumers.[36]

In addition, banks take into consideration that different CDFI lending structures are appropriate to different market contexts. For example, CDFI banks or credit unions may be the appropriate CDFI vehicles in areas where there is a large unbanked population or a large proportion of low-income borrowers who need basic financial services. CDFI credit unions may be a good fit in very low-income areas, where there is a high demand for small loans. CDFI loan funds may be the appropriate partner in areas where there is a need for financial products and services for small businesses, affordable housing, community facilities, commercial developers, nonprofits, and social service providers.[37]

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35 Center for Community Development Investments, "Collaborators or Competitors? Exploring the Relationships between the Community Development Financial Institutions and Conventional Lenders in Small Business Finance" (Federal Reserve Bank of San Francisco: March 2009). Available at *http://www.frbsf.org/community-development/files/wp2009-02.pdf.*

36 John Olsen, "Using CDFIs to Reach the Unbanked," Community Investments Volume 11 Number 2 (September 2000), p. 7. Available at *http://www.frbsf.org/community-development/files/community_investments_September_2000.pdf*.

37 Bob Bidal, "Bank of America's Strategic Approach to Investing in CDFIs," Community Developments (Summer 2002). Available at *http://www.occ.gov/static/community-affairs/Summer-11.pdf.*

Banks should assess the risks and determine acceptable financial returns when considering potential CDFI partnerships. CDFIs offer a variety of investment opportunities, ranging from options that generate little financial return to options that are expected to provide market rates of return. Some investment options are insured by federal agencies or have credit enhancements from other sources. The bank can balance these investment options within the bank's overall community development strategy.

B. Evaluating Potential Partners

1. Credit and Performance Review

As with any investment, a credit review of the potential CDFI partner is an important factor in the partnership decision. There is no mandatory reporting or federally coordinated rating system of all CDFIs that allows investors or others to uniformly evaluate their credit soundness or financial performance.

CDFI depositories are subject to oversight by federal financial institution regulators. Nondepository CDFIs are subject to the laws of the states in which they operate, but they are not federally regulated.

In most cases, financial reports provided by the CDFI organization and meetings with management will be required to help evaluate the performance of a CDFI. The credit review process can include an evaluation of a CDFI's risk management systems, credit underwriting and approval processes, and portfolio management practices. The credit review process can also include an assessment of the CDFI's organizational capacity and experience in community development lending, or in the case of venture capital funds, experience in managing and investment in venture capital funds.[38] In addition, the review can cover an analysis of the financial performance of loans or investments, and the organization's effectiveness in delivering community development benefits.

2. Sources of Information for Analysis

To help evaluate the capacity of CDFIs, a prospective investor bank may use financial ratios and information developed by the CDFI industry.

a. Financial Ratios

Due diligence can include the same types of financial and ratio analysis of third parties that the bank uses in other types of situations. The analysis of a CDFI's financial statement is similar to the analysis of a traditional bank's financial statement. The principles and ratios are similar, but the norms are different, owing to the CDFI mission and business model. For this reason, financial ratios should be compared to a peer group of similar CDFIs over time. Such a ratio analysis is not intended to provide definitive answers as to the financial soundness and safety of a CDFI, but to raise questions for discussion with the CDFI's management.

The Consolidated Reports of Condition and Income and the Uniform Bank Performance Reports available from the FDIC and Federal Financial Institutions Examination Council websites can be used to review the financial condition and performance metrics of CDFI banks. The NCUA provides Quarterly Call Reports and Financial Performance Reports for all federally insured credit unions.

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38 "Community Development Financial Institutions – A Unique Partnership for Banks." Community Development (Special Issue 2011). Available at *http://www.richmondfed.org/community_development/resource_centers/cdfi/pdf/cdfi-special-2011.pdf.*

For nondepository CDFIs, banks can request financial information from those institutions and develop their own ratios or performance measures for analysis purposes.

b. CDFI Technical Assistance Providers

As part of their review of potential CDFI partners, banks should also consider information provided by one or more CDFI technical assistance providers. The information obtained from these sources can be helpful but should not substitute for a bank's own analysis of the potential opportunity. These CDFI technical assistance providers include (but are not necessarily limited to) the following:

- The National Community Investment Fund – This certified, national CDFI can provide financial and social performance data on all community development banks in the United States. Investors can use the organization's Community Development Banking Institution Analysis to identify CDFI banks that are providing services to low-income and underserved communities and make targeted investments based on geographic need. The analysis includes an evaluation of the financial performance of community banks. The analysis also includes an assessment of the development and social impacts of these institutions through metrics that measure the percentage of a bank's home loan originations and purchases and its bank branches that are located in low- and moderate-income communities. The database tool is located on the National Community Investment Fund's website and is available to the public.

- Opportunity Finance Network – Opportunity Finance Network is a national CDFI that provides training and technical assistance to CDFIs. It is currently providing training nationwide to CDFIs through the CDFI Fund's Capacity Building Initiative. CDFIs that are members of this organization's network have been evaluated by the organization based on its criteria.

- NeighborWorks America – NeighborWorks America is a congressionally chartered, nonprofit organization and national CDFI that supports affordable housing and community development through its network of more than 200 community development organizations, many of which are certified CDFIs. The organization provides technical assistance to CDFIs through the CDFI Fund's Capacity Building Initiative, and to CDFIs and other nonprofits through its national training institute.

C. Risk Mitigation

In its evaluation of CDFIs, community banks should consider risks associated with CDFI partnership activities and how the risks can be mitigated. Depending on the investment option, risk mitigation techniques can include credit enhancements or indirect investing through intermediaries.

1. Credit Enhancements

Banks interested in partnering with CDFIs should confirm that the CDFI has taken steps to manage losses, either out of income or from an external source. Loan loss reserves are funds set aside by the CDFI in the form of cash reserves that serve as a cushion to protect an investor for losses up to the amount allocated for the reserve. These funds are not available for lending purposes.

Loan guarantees are made by a government agency or nonprofit organization, such as a foundation. Guarantees ensure that a financial obligation of a CDFI will be honored, even if the CDFI is unable to pay its debt. Also, loan guarantees or partial guarantees on CDFI loans help traditional banks reduce some of the risks on loans they make to CDFIs. In some cases, the guaranteed portion of the loan can be resold in the secondary market.

2. Investing Through an Intermediary

As permitted by law and regulation, community banks can invest in CDFIs indirectly through an intermediary. Intermediary organizations allow investors to invest in a pool of community investments. Pooled investments have some advantages over direct investments, including greater portfolio diversity and cost-effective due diligence and monitoring.

National intermediaries include:

- Opportunity Finance Network – This CDFI certified national network of CDFIs has a Financing Fund that provides banks and other investors the opportunity to invest in CDFIs that are members of the organization's network. CDFIs that are members of the network are high-performing CDFI loan funds that have been evaluated based on the Opportunity Finance Network's criteria.
- National Federation of Community Development Credit Unions – This organization is the national association of community development credit unions and a certified CDFI. Banks can invest indirectly in CDFI credit unions through the National Federation of Community Development Credit Unions, which offers a secondary capital program, a nonmember deposits program, and a grant program to facilitate investment in credit unions.
- Community Development Venture Capital Alliance – This organization is a national network of community development venture capital funds and a CDFI. The Community Development Venture Capital Alliance Central Fund can accept capital in the form of grants and debt, which is passed through for CDFI venture capital funds.
- National Community Investment Fund – The National Community Investment Fund is a CDFI that helps banks and other investors underwrite and structure their investment in CDFIs. This organization has designed a Community Development Banking Institution Analysis to identify community development banks that provide financial services to low-income and underserved communities and fund investments based on the credit and capital needs of particular areas. The Community Development Banking Institution Analysis includes an evaluation of the financial and social performance of community development banks using an internal CAMELS analysis. The organization's website outlines criteria for institutions in which it will invest.
- Oweesta – This certified, national Native American CDFI and subsidiary of First Nations Development Institute provides technical and financial support to Native CDFIs and Native organizations seeking to become CDFIs. Banks can invest indirectly in Native CDFIs through Oweesta. The organization can accept capital in the form of grants and debt.
- Calvert Foundation – The Calvert Foundation, an affiliate of the Calvert Social Investment Fund, is a certified CDFI and financial intermediary that helps banks find CDFI partners in areas that banks want to target. The Calvert Foundation matches CDFIs to the bank's criteria and carries out the necessary due diligence to ensure high quality investments. An investor committed to a minimum $50,000 investment can buy a community investment note, which is a financial instrument that pays a fixed, below market rate of return from one to ten years. The foundation matches or exceeds the bank's financing in the CDFI.

D. Leveraging Partnership Resources

As part of its strategy to maximize economic development outcomes for its bank/CDFI partnership, community banks can take advantage of public and private sector programs that support bank/CDFI partnership activities. These programs can provide equity, grants, loans, and loan guarantees to support lending in target communities, and technical assistance to help build the capacity to deliver financial services effectively in low-income communities.

Leveraging partnership resources with government funding allows banks the opportunity to make a greater community development impact than their investment dollars could provide on their own. Government or public funding partners also help spread the credit risk of investing in low-income and underserved communities.

To leverage partnership resources at the local level, banks can work with a few CDFI partners in targeted neighborhoods and focus investments and activities.

1. Federal Funding Programs to Support Bank/CDFI Partnerships

Depending on eligibility requirements of the various programs, a bank or its CDFI partner may be eligible to apply for financial or technical assistance awards. Many of these programs require the recipient to match the federal funding with nonfederal dollars. In cases where the CDFI is the applicant, banks may elect to help smaller CDFIs meet the federal match for financial assistance awards as part of its partnership agreement.

a. CDFI Fund

The U.S. Department of the Treasury's CDFI Fund promotes economic and community development through investment in and assistance to CDFIs. The CDFI Fund's award programs are the largest source of funding designed specifically for certified CDFIs and financing entities planning to become certified within three years. The CDFI Fund estimates that certified CDFIs leverage each dollar of financial assistance from the CDFI Fund with an average of $20 in private and other non-CDFI Fund dollars.[39] The CDFI Fund's monetary award programs are funded through an annual appropriation from Congress.

- Bank Enterprise Award Program – The purpose of the Bank Enterprise Award Program is to provide incentives for FDIC-insured banks to invest in certified CDFIs and increase their lending, investment, and services in low-income communities. All FDIC-insured depository institutions, even if they do not have the CDFI designation, are eligible to apply for an award.

  Awards are based on activities within three categories (in order of funding priority):

  1. CDFI-Related Activities (incentives for banks to invest in certified CDFIs)
     - Equity investments
       * Grants
       * Stock/share purchases
       * Purchase of partnership interests or limited liability company membership interests in CDFI venture capital funds[40]

39 Donna Fabiani, Office of Financial Strategies and Research, "CDFIs Leverage CDFI Program Awards Nearly $20 to $1!" (Washington DC: U.S. Department of the Treasury CDFI Fund, 2004). Available at ***http://www.cdfifund.gov/impact_we_make/Leverage.pdf***.

40 The limited liability corporation or limited partnership structure should not subject the bank to unlimited liability.

- Equity-like loans
- CDFI Support Activity
    * Loans to CDFIs
    * Deposits in CDFI depositories
    * Technical assistance to certified CDFIs

2. Distressed Community Financing Activities (incentives for banks to expand their community development lending and investments in low-income communities)
    - Small business loans
    - Home improvement loans
    - Education loans
    - Commercial real estate loans
3. Service Activities (incentives for banks to expand their financial services in low-income communities)
    - Deposits
    - Financial services (check-cashing, money-orders, certified checks, electronic transfer accounts, and individual development accounts)
    - Community services

Priority in all categories is given to CDFI bank applicants. Small banks have priority over large banks.[41] For the Bank Enterprise Award Program, asset size classes (i.e., small banks, intermediate-small banks, and large banks) correspond to the CRA asset size classes set by the federal bank regulatory agencies and that were effective at the end of the assessment period.[42]

The CDFI Fund determines the award amounts based on increases in qualified activities from one annual reporting period to the next, an applicant's priority ranking, and the availability of funds. To calculate Bank Enterprise Award Program amounts, the CDFI Fund counts the amount a bank applicant expects to disburse for an activity within one year from the end of the assessment period. For purposes of this calculation, the total amount of equity investments, debt financing, and commercial real estate loans must be $10 million or less to be considered a qualified activity. On a case-by-case basis, the CDFI Fund may consider transactions with a total principal value of more than $10 million.

- New Markets Tax Credit Program – The purpose of the New Markets Tax Credit Program is to spur revitalization in low-income communities by incentivizing private sector equity investments in these communities through federal tax credits. Tax allocation authority is granted to certified Community Development Entities (CDEs), which are intermediary groups that are certified by the CDFI Fund to participate in the program.

  Certified CDFIs automatically qualify for certification as CDEs and must complete a short application to receive this designation. Insured depository institutions, governmental entities, and community development corporations can be certified as CDEs. Once

41 U.S. Department of the Treasury CDFI Fund, Bank Enterprise Award Program FY2012 Application. Washington, DC: U.S. Department of the Treasury CDFI Fund, 2012. Available at *http://www.cdfifund.gov/docs/bea/2012/BEA%202012%20Application%20and%20Instructions.pdf.*

42 Department of the Treasury, "Community Development Financial Institutions Fund," Federal Register Vol. 77, no. 121 (June 22, 2012), 37742. Available at: *www.cdfifund.gov/docs/bea/2012/BEA%20NOFA.pdf.*

designated by the CDFI Fund as a CDE, an organization can apply for tax credit allocation authority.

CDEs provide the tax credits to banks and other investors in exchange for cash. The tax credit is worth 39 percent of the investment made in the CDE. The credit is a dollar-for-dollar reduction in federal tax liability, and the value of the credit is spread over seven years.

The CDE uses the capital generated from the tax credits to make equity investments and below-market loans in low-income communities. The four types of qualified low-income community investments are equity investments or loans to low-income community businesses, equity investments or loans to other CDEs, loans purchased from other CDEs, and financial counseling to businesses in low-income areas.

Community banks can participate in the program by:

- Investing in a CDE that has been awarded New Markets Tax Credit authority – The CDFI Fund publishes a list of CDEs that have received New Markets Tax Credit allocation authority and the markets they serve on its website.
- Establishing a CDE and applying for an allocation of New Markets Tax Credit authority – In this case, the bank uses a subsidiary, such as a bank community development corporation, to establish a limited liability corporation as the vehicle to obtain CDE status and apply for an allocation of New Markets Tax Credit authority from the CDFI Fund. After receiving a New Markets Tax Credits allocation, the bank can invest directly in low-income communities and businesses in low-income areas, all of which must be qualified, and manage its New Markets Tax Credits portfolio through its subsidiary CDE. Through the CDE, the bank receives tax credit benefits as well as a return on investment from the qualified low-income equity investments and loans made to eligible businesses.
- Participating as a lender through the New Markets Tax Credit leveraged loan structure – The bank would provide debt, in addition to the equity capital either provided by the bank or another investor, to an intermediary entity between the bank and the CDE. This intermediary entity is structured as a limited liability corporation or limited partnership. All of the capital (debt and equity) is invested in the CDE as a qualified equity investment. The CDE acts as a flow-through entity to pass the tax credit to the equity investor, which receives the full stream of tax credit benefits. The Internal Revenue Service requires that equity and debt capital in this investment structure be treated as equity investments in the CDE.[43]

- CDFI Fund Program – Through this program, the CDFI Fund provides equity investments, grants, and loans to support the overall operations of individual, certified CDFIs. These funds can be used for financing capital, loan loss reserves, capital reserves, or operations. The CDFI is required to match the award dollar-for-dollar with nonfederal funds. This program also offers technical assistance grants to certified CDFIs and organizations seeking to become CDFIs. Grants can be used for equipment, materials, supplies, salaries, or training.

43 Internal Revenue Bulletin, Rev. Rul. 2010-17 (Internal Revenue Service: June 28, 2010). Available at ***http://www.irs.gov/irb/2010-26_IRB/ar05.html***.

Community banks can seek to partner with certified CDFIs that are applying and/or have received a financial assistance award from this program to leverage the public funds in their assessment areas. In support of their CDFI partner, banks may elect to provide the federal match for the financial assistance award as part of their partnership agreement. The CDFI Fund provides a list of certified CDFIs that have been awarded financial assistance from this program and profiles of the CDFI awardees on its website.

- Native Initiatives – The CDFI Fund's Native Initiatives Program was designed to help overcome barriers to financial services in Native American, Alaskan Native, and Native Hawaiian communities through the creation and expansion of CDFIs. These barriers were identified in a study completed by the CDFI Fund in 2001. Major barriers cited in the study included the following: the limited number of banks on reservations or near Native communities, tribal governance and regulatory constraints on reservations and trust land that increase the risk of providing financial services to Native communities, insufficient access to affordable credit paired with technical assistance for Native households, and insufficient access to investment capital for Native owned or tribal businesses. According to the study, the investment gap between Native communities and the rest of the United States totaled more than $44 billion. In response to the findings, the study recommended the expansion of Native CDFIs to meet the demand for credit and capital in these areas.[44]

  In the Native Initiatives, Native CDFIs are those that direct at least 50 percent of their activities toward serving Native Americans, Alaskan Natives, or Native Hawaiians. The Native Initiatives is composed of the following:

  - Native American CDFI Assistance Program – This program provides financial and technical assistance to increase the number and capacity of existing and developing Native CDFIs. Financial assistance awards are made to certified Native CDFIs to support financing activities. The awards are in the form of loans, grants, deposits, and equity investments, and they require a dollar-for-dollar match by a nonfederal source.

    Technical assistance grants can be awarded to certified Native CDFIs, organizations that plan to become CDFIs, and tribes or tribal entities that plan to create a separate legal entity that will become a CDFI. These funds can be used to increase the capacity to serve Native communities or to become a Native CDFI. Eligible activities include hiring staff, acquiring products or services, providing technology services, and training.

    Community banks can partner with certified Native CDFIs that are applying and/or have received financial assistance from the Native American CDFI Assistance Program to leverage the public funds in their assessment area. Banks may elect to help Native CDFIs meet the federal match for the financial assistance awards as part of their partnership agreement. A list of certified Native CDFIs that have received assistance from this program and profiles of the certified Native CDFIs are available on the CDFI Fund website.

  - Native Opportunities – Through this initiative, the CDFI Fund administers training to help tribes and tribal organizations develop Native CDFIs and help Native CDFIs create financial products and services to serve Native communities.

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44 Sarah Dewees and Stewart Sarkozy-Banoczy. "Investing in Native Community Change: Understanding the Role of Community Development Institutions." (U.S. Department of the Treasury, CDFI Fund – Research Initiative: October 2008). Available at ***http://www.cdfifund.gov/impact_we_make/research/rural-and-underserved-markets/reports/Investing%20in%20Native%20Community%20Change%20-%20Understanding%20the%20Role%20of20Community%20Development.pdf.***

- Capacity Building Initiative – The Capacity Building Initiative provides technical assistance and training opportunities to build the capacity of certified CDFIs to deliver financial services. One example of a training opportunity is a series to support CDFIs in providing loans and services to small and medium-sized businesses.
- CDFI Bond Guarantee Program – This program, created in the Small Business Jobs Act of 2010, provides federal guarantees for the full amount of bonds or notes, including the principal and interest, issued by Qualified Issuers (which may include CDFIs) to finance loans for eligible community development projects. The Secretary of the U.S. Department of the Treasury may guarantee up to 10 bonds per year, each at a minimum of $100 million. The bonds will support CDFI lending and investment by providing a source of low-cost, long-term (up to 30 years) capital to CDFIs to support their lending and investment activities. Eligible uses for such loans include financial support for commercial facilities, housing, and businesses that promote revitalization and job creation in low-income communities. Other eligible uses include community development in low-income and underserved rural areas, and the provision of basic financial services. The program is authorized through fiscal year 2014.
- CDFI Certification – CDFI Certification is the CDFI Fund's assessment of financing entities seeking certification as CDFIs. Traditional community banks that are certified as CDFIs may take advantage of various governmental programs that support community development lending activities.
- CDE Certification – This is the CDFI Fund's assessment of financial entities seeking CDE designation and authority to allocate New Markets Tax Credits. A CDE must have a primary mission of community development and a governance structure that assures accountability to the low-income communities it serves. Certification lasts for the life of the organization as long as it submits an annual update to the CDFI Fund. CDFIs, banks, bank consortiums, and government entities can be certified as CDEs.

The CDFI Fund provides a full description of these programs, along with timelines, application materials, supplemental resources, past awards, and program materials archives, on its website at *www.cdfifund.gov*.

b. Other Federal Agencies

Federal government programs for economic and community development can provide equity, loans, loan guarantees, and other credit enhancements to help reduce the risk of lending in community bank/CDFI partnership target areas. Most of these programs are designed to target low-income populations and communities. These programs emphasize leveraging and flexibility, and encourage public/private partnerships. Community banks can use these programs to help mitigate the risk in bank/CDFI partnerships. Government financial assistance can provide a cushion for lenders and an incentive for bank/CDFI partners to make larger loans and expand lending in very low-income areas.

For most programs, either the bank or CDFI partner can be the recipient of the financial assistance. Some programs are specifically targeted to nonprofits. Because federal agencies encourage public/private partnerships, the application of the CDFI nonprofit can be strengthened by the bank/CDFI partnership.

CDFIs have expertise in securing and using these funds. They also have expertise in the program administration requirements of the federal government programs.

Some of the federal government programs that may be beneficial to a community bank/CDFI partnership include the following:

U.S. Department of Commerce – Economic Development Administration

- Revolving Loan Fund Assistance Awards – As part of the Economic Adjustment Program, the Economic Development Administration's regional offices award competitive grants to establish revolving loan funds for small business loans at interest rates that are at or below market rate. Revolving loan fund awards can be used by bank/CDFI partners to support loan pools and consortiums. Applications to establish a revolving loan fund are handled by the Economic Development Administration's six regional offices, each of which has a designated revolving loan fund administrator.

U.S. Department of Housing and Urban Development

- Community Development Block Grant (CDBG) Program – This program provides annual grants to local and state governments to carry out eligible community development activities that primarily benefit low- and moderate-income people, eliminate or prevent slum and blight conditions, or address health and safety problems. The program is flexible and relies on local and state governments to identify local needs and find local public/private solutions. Eligible cities and towns develop their own programs and funding priorities for organizations to apply for CDBG grants.

U.S. Department of the Treasury - Internal Revenue Service and State Housing Finance Agencies

- Low-Income Housing Tax Credit Program – This program offers federal tax credits to private investors, including banks, in return for their providing equity for the development of affordable rental housing. The tax credits are allocated by the Internal Revenue Service to state housing finance agencies, which in turn award the tax credits to developers of qualified projects. A tax credit property can offer lower, more affordable rents because the debt burden for owners is lower. Investors, including banks, obtain a dollar-for-dollar reduction in their federal tax liability.

U.S. Department of the Interior – Indian Affairs

- Loan Guaranty, Insurance, and Interest Subsidy Program – This program provides guarantees of up to 90 percent of a loan made to a federally recognized American Indian tribe or Alaska Native group, an individual enrolled in such a tribe or group, or a business with no less than 51 percent ownership by American Indians or Alaska Natives. The maximum loan that can be guaranteed is $500,000 for individuals and $12 million for tribes and tribal enterprises.

U.S. Small Business Administration

- Intermediary Lending Pilot Program – This program provides loans to eligible nonprofit intermediaries, including CDFIs, for making small business loans of up to $200,000.

- Microloan Program – This program provides funding to community-based microlenders, including CDFI loan funds, to finance small loans to eligible small businesses.

- Community Advantage – U.S. Small Business Administration 7A Loan Program – This loan program provides partial guarantees on loans for small businesses to invest in working capital, machinery and equipment, and real estate.

U.S. Department of Agriculture

- Intermediary Relending Program – This program provides loans for revolving loan funds for financing businesses that create or maintain jobs in remote, disadvantaged communities. Eligible recipients of funding from this program are private, nonprofit entities that are eligible for U.S. Department of Agriculture intermediary lender status.

- Rural Business Enterprise Grants Program – This program provides grants for rural projects that finance businesses, business incubators, and employment-related adult education programs.

U.S. Department of Health and Human Services – Office of Community Services

- Community Economic Development Program – This program provides funding for the start-up and expansion of businesses or commercial projects that create or maintain jobs for low-income people and communities.

2. Federal Home Loan Bank Programs to Support Bank/CDFI Partnerships

The Federal Home Loan Banks (FHLB) are 12 regional cooperative banks that financial institutions use to finance mortgages and community lending in their communities. Community banks and CDFIs are eligible for membership in the FHLB system. With FHLB membership, community banks and CDFIs can access long-term, low-cost funding for home mortgage loans and other economic development-related lending activities. Members can also apply for community development grant funds.

FHLB programs that may be beneficial to a community bank/CDFI partnership include:

- Affordable Housing Program – This program provides grants for the purchase, construction, and rehabilitation of housing for low-income households. Member lending institutions partner with developers and community organizations to build housing for low-income households. The program is the largest source of private sector grant funding for housing and community development in the country. The program is flexible, and grant funding can be used in combination with other programs and funding sources.

- Community Investment Program –This community development lending program provides below-market loans to members for the long-term financing of housing and economic development that benefits low-income borrowers and communities.

The Affordable Housing and Community Investment Programs are managed by the Community Investment Office of the FHLB's regional banks. Contact information for the regional banks is available on the FHLB's website.

3. Focusing Partnership Activities

Some financial institutions choose primarily a place-based strategy for their activities, meaning they concentrate their community development resources on a specific community or other geography to promote a significant, measurable impact. Other institutions choose a more diversified approach to meeting community development needs across different markets where they do business. Still others may emphasize a particular type of community development, such as supporting microenterprise finance across a broad geographic area. To maximize the impact of their partnership activities and investments, banks can work with one or a few CDFI partners that serve their assessment area(s) in targeted neighborhoods or in a specialized program activity, such as microenterprise. Focusing on place-based strategies by directing investments in the context of specific neighborhoods may strengthen the economic productivity of those areas and enable partners to better measure the impact of their partnership initiatives.

As community leaders, community bank officials can work to gain the support of regional, state, and local government leadership for their bank/CDFI partnerships. Banks can encourage these and other economic development stakeholders to support bank/CDFI partnerships by directing resources to the partnerships' targeted areas. The local government may be helpful in providing financing tools, such as credit enhancements for loan pools to support bank/CDFI partnership activities. In rural areas, regional councils of government, state agencies, and some utility companies can provide support for bank/CDFI partnerships and other community development activities.

Bank/CDFI partnerships, with local government support, can work to link partnership activities to the broader economic development initiatives. This may result in positioning the bank/CDFI partnership's targeted area for additional public funding.