

# COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

[www.cdfifund.gov](http://www.cdfifund.gov)



## About the CDFI Fund

PRESENTED BY  
The CDFI Fund

PRESENTED ON  
July 14, 2015



# CDFI Certification Overview

An entity **must meet all** of the following requirements to be eligible to apply to become a certified CDFI:

1. Be a **Legally Existing Entity**;
2. Have a **Primary Mission** of promoting community development;
3. Be a **Financing Entity**;
4. Primarily serve an eligible **Target Market**;
5. Provide **Development Services** in conjunction with its financing activities;
6. Maintain **Accountability** to its defined Target Market; and
7. Be a **Non-Governmental Entity**, and not be controlled by any governmental entities.



# CDE Certification Overview

An entity **must meet all** of the following requirements to be eligible to apply to become a certified CDE:

1. Be a **Legally Existing Entity**;
2. Have a **Primary Mission** of promoting community development;
3. Maintain **Accountability** to its identified Service Area.

# CDFI Program



The Community Development Financial Institutions Program (CDFI Program) provides Financial Assistance (FA) awards to institutions that are certified as CDFIs and Technical Assistance (TA) grants to certified CDFIs and entities that will become certified within two years in order to sustain and expand their services and to build their technical capacity.

- **FA Awards:** The CDFI Fund makes awards of up to \$2 million to certified CDFIs under the FA component of the CDFI Program. A CDFI may use the award for financing capital, loan loss reserves, capital reserves, or operations. FA awards are made in the form of equity investments, loans, deposits, or grants, and the CDFI is required to match its FA award dollar-for-dollar with non-federal funds of the same type as the award itself.
- **TA Grants:** TA grants may be used for a wide range of purposes. For example, awardees can use TA funds to purchase equipment; for consulting or contracting services; to pay the salaries and benefits of certain personnel; and/or to train staff or board members. The CDFI Fund makes awards of up to \$125,000 under the TA component of the CDFI Program.

For the FY 2014 funding round of the CDFI Program, the CDFI Fund made 152 Financial Assistance (FA) and Technical Assistance (TA) awards totaling over \$160 million.

# Native American CDFI Assistance Program



The CDFI Fund's Native Initiatives are designed to overcome identified barriers to financial services in Native Communities. These initiatives seek to increase the access to credit, capital, and financial services in Native Communities through the creation and expansion of CDFIs primarily serving Native Communities. Through the NACA Program, the CDFI Fund provides both Financial Assistance awards and Technical Assistance grants.

- In FY 2013, the CDFI Fund's Native Initiatives launched a new study of Native Communities' access to capital and credit. The project will provide detailed analysis and quantitative research that can lead to actionable recommendations for improving access to capital and credit in Native Communities.
- In FY 2013, the CDFI Fund began sponsorship of a two-year training series called the Native Leadership Journey II, which is designed to develop the capacity of a group of established Native CDFI leaders to develop leadership skills and resources to further staff growth and increase organizational performance.
- In FY 2014, the CDFI Fund initiated the Building Native CDFIs' Sustainability and Impact series. The series will provide a wide range of specialized training, technical assistance, and peer learning opportunities designed to meet the unique needs of Native CDFIs at all stages of growth.
- For the FY 2014 NACA Program funding round, the CDFI Fund made 33 awards totaling over \$12 million.

# Bank Enterprise Award Program



- The Bank Enterprise Award Program (BEA Program) awards FDIC-insured depository institutions for making investments in the most distressed communities across the nation. The BEA Program provides monetary awards to banks and thrifts that have successfully demonstrated an increase in their investments in census tracts with at least 30 percent of residents having incomes less than the national poverty level and 1.5 times the national unemployment rate.
- FDIC-insured depository institutions that demonstrate an increase in investing in Community Development Financial Institutions (CDFIs) or in their own lending, investing, or service-related activities in distressed communities may apply for a BEA Program award.
- Award amounts are calculated formulaically and correlate with the percentage of increase in dollars associated with these new activities: the greater the increase, the larger the award. There is also a priority factor based on asset size, which favors smaller banks.
- Organizations that receive BEA Program awards must then reinvest that money back into distressed communities.

# Bank Enterprise Award Program



In FY 2014 the CDFI Fund received 98 applications requesting approximately \$211 million in awards. Given limited funding, 69 awards totaling approximately \$17.9 million were made.

Category	Number of Awardees	Award Amount	% of Award Dollars
Certified CDFIs	48	\$15.4 million	86%
Minority Depository Institutions	21	\$6.5 million	30%
Small Banks (assets of less than \$300 million)	35	\$9.9 million	55%
Intermediate Banks (assets of a least \$300 million but less than \$1.202 billion)	24	\$6.8 million	38%
Large Banks (assets of \$1.202 of greater)	10	\$1.2 million	7%

\* NOTE: Some awardees may meet the definition of certified CDFIs and Minority Depository Institutions.

# New Markets Tax Credit Program



- The NMTC Program was authorized under the Community Renewal Tax Relief Act of 2000. The Tax Increase Prevention Act of 2014 extended the program through 2015.
- To date, the CDFI Fund has completed twelve allocation rounds and has made 912 awards totaling \$43.5 billion in allocation authority, including \$3 billion in Recovery Act awards and \$1 billion that was specifically set aside for recovery and redevelopment in the wake of Hurricane Katrina.
- The NMTC Program provides a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) into Community Development Entities (CDEs). CDEs in turn use the proceeds of these investments to make Qualified Low-Income Community Investments (QLICIs).
- Demand for the tax credits has been high since the program's inception, as nearly 3,000 applicants have requested tax credits supporting in total over \$270 billion in equity investments – almost seven times the amount of allocation authority available for awarding by the CDFI Fund.
- For the CY 2014 NMTC Program allocation round, the CDFI Fund received 263 applications **requesting approximately \$19.9 billion** in total allocation authority, but made \$3.5 billion in awards to 76 CDEs. Of these, 23 were CDFIs and 9 were first-time allocation recipients.

# New Markets Tax Credit Program



- The NMTC Program recently released a Request for Proposal for NMTC industry and subject matter experts to provide group training and individual technical assistance to certified CDEs that are minority-owned or minority-controlled (“minority CDEs”).
- The training and technical assistance to be provided would inform attendees on how they can participate in the NMTC Program (e.g., leverage lender, investor, allocatee, non-allocatee, and/or secondary CDE).
- The Contractor will conduct a variety of tasks via research and interaction with minority CDEs, including:
  - Creating a Minority CDE Needs Assessment, based on initial research including review of existing data, analysis, literature and interviews.
  - Creating a Minority CDE Self-Assessment, which will identify specific challenge(s) that each minority CDE may face in participating in the NMTC Program,
  - Developing curriculum, training workshops. and technical assistance that would best address the self-identified challenges.
- **Timeline:**
  - Award contract by September 30, 2015, pending the review and results of the technical evaluation panel.
  - Complete services within 18 months of contract execution.

# CDFI Bond Guarantee Program



- The CDFI Bond Guarantee Program provides CDFIs with access to significant capital by providing guarantees of bonds. With long-term credit at below-market interest rates, the CDFI Bond Guarantee Program is a groundbreaking effort to accelerate community economic growth and development. The bonds are fully guaranteed by the Treasury Secretary at no cost to the taxpayer and must be repaid by the CDFI.
- Under the program, the Treasury Secretary can issue a maximum of 10 Guarantees annually; the minimum Bond Issue is \$100 million.
- A Qualified Issuer must be a Certified CDFI or entity designated by a Certified CDFI to issue Bonds. The Qualified Issuer issues Bonds on behalf of its pool of Eligible CDFIs; the Bonds are purchased by the Federal Financing Bank (FFB) with a bond maturity not exceeding 30 years.
- An Eligible CDFI borrower must be a Certified CDFI.
- For the FY 2013 round of the CDFI Bond Guarantee Program, the Department of the Treasury entered into agreements to guarantee for a total of \$325 million in guarantee authority. In FY 2014, the Treasury entered into agreements for an additional \$200 million.

# CDFI Bond Guarantee Program: Overview of Requirements



- Authorized by the Small Business Jobs Act of 2010.
- 100% Guarantee by the Secretary for Bonds or notes, including principal, interest, and call premiums.
- Annual program-wide limit of \$1 billion.
- Treasury is authorized to guarantee up to \$750 million in FY 2015.
- For FY 2013 and FY 2014, Treasury guaranteed a total of \$525 million.
- Minimum issue of \$100 million | Bond maturity not to exceed 29.5 years.
- Bonds are purchased by the Federal Financing Bank (FFB).
- A Qualified Issuer (QI) issues Bonds on behalf of its pool of Eligible CDFIs.
- QIs must be a Certified CDFI or entity designated by a Certified CDFI to issue Bonds.
- An Eligible CDFI borrower must be a Certified CDFI.
- Bonds must be for the financing or Refinancing of loans for community or economic development purposes.
- Capital Distribution Plan must indicate proposed uses of Bond Proceeds.
- Bond Loans from QIs to Eligible CDFIs for a minimum amount of \$10 million each.
- Eligible CDFIs will lend Bond Proceeds to Secondary Borrowers in the form of Secondary Loans.
- Eligible CDFIs will be required to capitalize a 3 percent Risk-Share Pool.
- Eligible CDFIs have the option of deploying a Relending Account.

# CDFI Bond Guarantee Program: Overview of Requirements (cont'd)



- Under the Federal Credit Reform Act (FCRA), the CDFI Bond Guarantee Program is treated as a Direct Loan Program.
- Guarantee Applicants must achieve a zero credit subsidy (or less) in the Credit Subsidy Calculator 2 (CSC2).
- The Department designed the CDFI Bond Guarantee Program structure to adhere to the revised OMB Circular A-129:
  - Eligible CDFIs and Secondary Borrowers have a substantial stake in repayment in accordance with the loan contract.
  - The Federal Government's claims will not be subordinated to the claims of other creditors.
  - The Department will enforce well-managed collateral requirements for the Bond Loans to reduce the Federal Government's risk of default and potential losses.
- Secondary Loans must comply with program requirements and must be secured by specific collateral or acceptable substitute. Secondary Loan asset classes include:
  - CDFI-to-CDFI lending
  - CDFI to financing entity lending
  - Charter Schools
  - Commercial Real Estate
  - Daycare Centers
  - Healthcare Facilities
  - Rural Infrastructure
  - Rental Housing
  - Owner-occupied homes
  - Licensed senior living and long-term care facilities
  - Small Business
  - Not-for-Profit

# CDFI Bond Guarantee Program: Program Distinctions



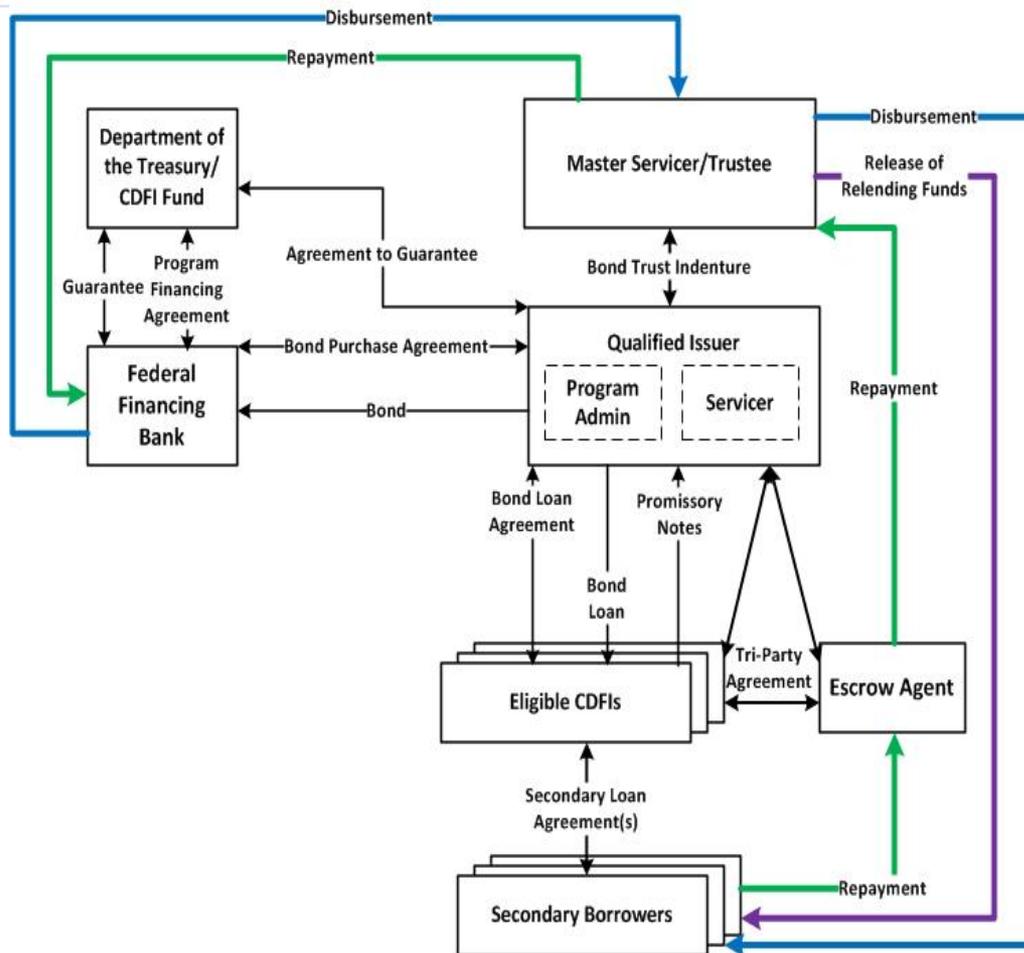
- The CDFI Bond Guarantee Program does not offer grants or direct loans, but is instead a federal credit subsidy program. The bond proceeds are debt instruments that must be repaid.
- The CDFI Bond Guarantee Program is designed to function at no cost to taxpayers.
- Repayment Structure
  - Bond Loans amortize on a level debt service payment basis.
  - Secondary Loan amortize on a monthly basis.
- Fees and Costs
  - The Risk-Share Pool is funded by Eligible CDFIs.
  - Eligible CDFIs cannot use Bond Loan proceeds to fund the Risk-Share Pool.
  - Eligible CDFIs are responsible for Bond Issuance costs.
- Recourse
  - Bonds are non-recourse to the Qualified Issuer.
  - Bond Loans are full recourse to the Eligible CDFI.
- Security
  - Bond Loans are secured by a first lien on collateral acceptable to the Department of Treasury.
  - Collateral is assigned to trust accounts of the Master Servicer/Trustee.

# CDFI Bond Guarantee Program: General Bond Issuance Structure



## Key Roles and Responsibilities:

1. The **Secretary** provides Guarantee on Bonds issued by the Qualified Issuer. The **CDFI Fund** administers the CDFI Bond Guarantee Program, which includes monitoring Eligible CDFIs and Secondary Borrowers to ensure compliance with program requirements.
2. The **Federal Financing Bank** purchases Bonds from the Qualified Issuer and disburses funds to Eligible CDFIs through the Master Servicer/Trustee.
3. The **Master Servicer/Trustee** collects repayments, disburses funds, and manages trust accounts under the BG Program.
4. The **Qualified Issuer** structures Bond Issues (pools Eligible CDFIs) and performs the roles of Program Administrator and Servicer, such as receiving and approving Secondary Loan commitments from Eligible CDFIs.
5. **Eligible CDFIs** finance or Refinance Secondary Loans for Eligible Community and Economic Development Purposes.
6. **Secondary Borrowers** borrow Secondary Loans from Eligible CDFIs and the Secondary Borrowers include certified CDFIs, senior facilities, small businesses, and daycare centers, among others.



# CDFI Bond Guarantee Program: Program Status



- Between the FY 2013 and FY 2014 rounds of the CDFI Bond Guarantee Program, Treasury approved five Qualified Issuers and guaranteed a total of \$525 million in bonds among eight CDFIs.
- Disbursements from the FY 2013 and FY 2014 cohorts are ongoing.
- The FY2015 round of the program is active.
  - \$750 million in Guarantee authority is available until September 30, 2015.
  - Notice of Guarantee Availability released: April 9, 2015.
  - Application Workshop: April 30<sup>th</sup> – May 1<sup>st</sup>, 2015
  - CDFI Certification Application due: May 22, 2015.
  - Qualified Issuer Application due: June 5, 2015.
  - Guarantee Application due: June 12, 2015.
  - Announcement of FY 2015 Guarantee recipients: Fall 2015.

#### **Approved Qualified Issuers:**

Bank of America CDFI Funding Corporation  
Community Reinvestment Fund  
Opportunity Finance Network  
Stonehenge Community Development LLC  
Wisconsin Housing and Economic Development Authority

#### **FY 2013 and FY 2014 Guarantee Recipients:**

Community Development Trust  
Local Initiatives Support Corporation  
Clearinghouse CDFI  
Enterprise Community Loan Fund  
Capital Impact Partners  
IFF  
The Reinvestment Fund  
Low Income Investment Fund