

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

www.cdfifund.gov



Community Development Financial Institutions Fund

An Introduction

What is a CDFI?



Community Development Financial Institutions (CDFIs):

- Are community-based, specialized financial institutions that serve low-income people or work in economically distressed communities.
- Provide a unique and wide range of financial products and services that help their customers build wealth and achieve the goal of participating in the financial mainstream.
- Provide services that help ensure that credit is used effectively, such as technical assistance to small businesses, home buying and credit counseling to consumers.

Only financial institutions certified by the CDFI Fund can receive Financial Assistance awards. Technical Assistance awards are available to certified CDFIs and entities that propose to become certified.

CDFI Types



CDFIs include depository institutions such as community development banks, thrifts and credit unions, and non-depository institutions such as loan and venture capital funds:

- **Community Development Loan Funds (61%)** (usually nonprofits) provide financing and development services to businesses, organizations, and individuals in low-income urban and rural areas and can be further categorized based on the type of clients served: micro-enterprise, small business, housing, and community service organizations;
- **Community Development Credit Unions (22%)** are nonprofit cooperatives owned by members that promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people;
- **Community Development Banks (15%)** are for-profit corporations that provide capital to rebuild economically distressed communities through targeted lending and investment (includes 50 Depository Institution Holding Companies); and
- **Community Development Venture Capital Funds (2%)** include both for-profit and nonprofit organizations that provide equity and debt-with-equity features for businesses in distressed communities.

The CDFI Fund



- Since its creation in 1994, the CDFI Fund has awarded more than \$2 billion to CDFIs, community development organizations, and financial institutions through the CDFI Program, the Bank Enterprise Award Program, the Capital Magnet Fund, the Financial Education and Counseling Pilot Program, and the Native American CDFI Assistance Program. In addition, the CDFI Fund has allocated \$40 billion in tax credit allocation authority to Community Development Entities through the New Markets Tax Credit Program, and \$525 million has been guaranteed in bonds through the CDFI Bond Guarantee Program.
- There are certified CDFIs headquartered in all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.
- CDFIs are required by statute to match dollar for dollar any Financial Assistance award support
- In FY 2013 alone, CDFIs reported almost \$2 billion in total loans/investments originated.

CDFI Certification



To become certified, an organization must submit a CDFI Certification application to the CDFI Fund for review and approval. The application must demonstrate that it meets each of the following requirements:

- Be a legal entity at the time of certification application;
- Have a primary mission of promoting community development;
- Be a financing entity;
- Primarily serve one or more target markets;
- Provide development services in conjunction with its financing activities;
- Maintain accountability to its defined target market; and
- Be a non-government entity and not be under control of any government entity (Tribal governments excluded).

Currently, there are 923 certified CDFIs.

CDFI Fund Programs



- **Community Development Financial Institutions Program (CDFI Program)**

- **Healthy Food Financing Initiative**



- **Native American CDFI Assistance Program (NACA Program)**

- **Capital Magnet Fund**



- **Bank Enterprise Award Program (BEA Program)**

- **New Markets Tax Credit Program (NMTC Program)**

- **CDFI Bond Guarantee Program**



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.

Healthy Food Financing Initiative



- The Healthy Food Financing Initiative (HFFI) administered by the CDFI Fund promotes a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products; developing and equipping grocery stores; and strengthening producer-to-consumer relationships.
- HFFI awards are part of the CDFI Program. The awards are made in the form of grants and loans, which enable CDFIs to leverage private capital to respond to the demand for affordable financial products and services in economically distressed markets.
- The businesses supported by CDFIs may take many forms, including grocery stores, farmers markets, bodegas, food co-ops, and urban farms. They may work on the production, distribution or retail aspects of the business cycle. Most importantly, however, they are often the single source of fresh produce or organic products for an entire neighborhood, a vital resource to which the CDFI Fund is committed.
- In FY 2014, the CDFI Fund awarded 12 Healthy Food Financing Initiative (HFFI) awards totaling \$22.4 million to CDFIs that will be used to finance businesses providing healthy food options.

Native American CDFI Assistance Program (NACA 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.

- For the FY 2014 NACA Program funding round, the CDFI Fund made 33 awards totaling over \$12 million.
- 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

Capital Magnet Fund



- Congress passed and the President signed into law the Housing and Economic Recovery Act (HERA) on July 30, 2008, establishing the Capital Magnet Fund (CMF). Funding for CMF was to come from mandatory contributions by Fannie Mae and Freddie Mac; however, their ensuing conservatorship led to the suspension of this funding mechanism. In response, Congress provided the Capital Magnet Fund with \$80 million in appropriations for FY 2010 in order to jump-start the program. Last week the suspension was lifted.
- On October 10, 2010, the CDFI Fund announced \$80 million in Capital Magnet Fund awards to 23 CDFIs and nonprofit housing developers. Of the 23 CMF awardees, 13 were nonprofit housing organizations; nine were CDFIs; and one was a Tribal housing authority.
- To date, Capital Magnet Fund awardees have invested over \$62.3 million and committed another \$17.7 million through 2012. This has produced a total project benefit of over \$1 billion in affordable housing and community and economic development projects.
- The 23 awardees leveraged the Capital Magnet Fund awards 1:12 with other public and private investments that increased the number of safe, affordable housing units in America by almost 7,000 units.

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 apply for a BEA Program award. Award amounts correlate with the percentage of increase in dollars associated with these activities: the greater the increase, the larger the award.
- Organizations that receive awards must then reinvest that money back into distressed communities.
- For the FY 2014 BEA Program funding round, the CDFI Fund received 98 applications requesting approximately \$211 million in awards, and made 69 awards totaling approximately \$17.9 million.

New Markets Tax Credit Program



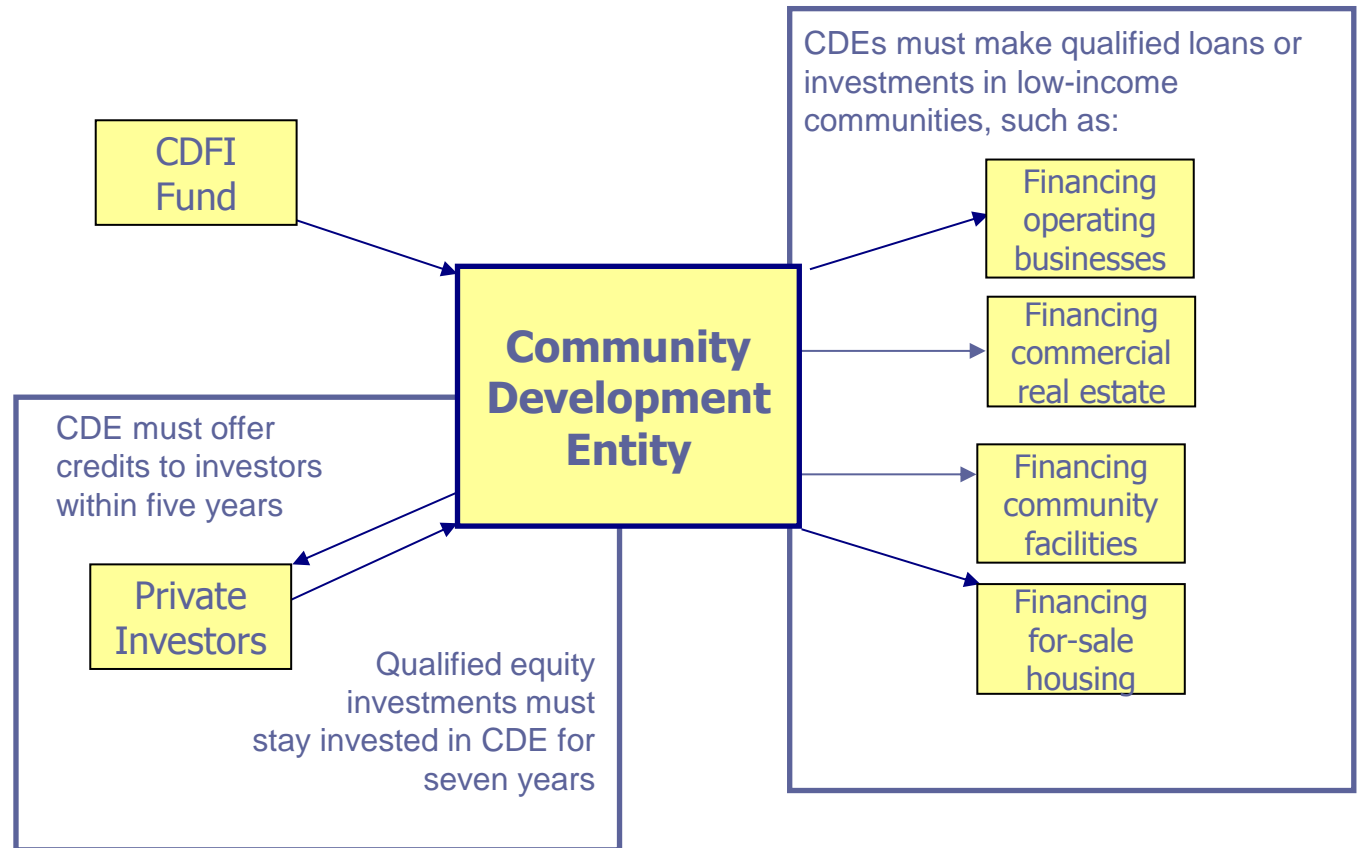
- The NMTC Program was authorized under the Community Renewal Tax Relief Act of 2000. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 extended the program through 2013.
- To date, the CDFI Fund has completed ten allocation rounds and has made 836 awards totaling \$40 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 (QLICs).
- Demand for the tax credits has been high since the program's inception, as 2,670 applicants have requested tax credits supporting in total over \$250.5 billion in equity investments – almost seven times the amount of allocation authority available for distribution by the CDFI Fund.
- For the CY 2013 NMTC Program allocation round, the CDFI Fund received 310 applications **requesting approximately \$25.9 billion** in total allocation authority and made \$3.5 billion in awards.

NMTC Investment



The credit is taken over a seven-year period. The credit rate is:

- Five percent of the original investment amount in each of the first three years; and
- Six percent of the original investment amount in each of the final four years.
- Equals 39 percent of amount of original investment.

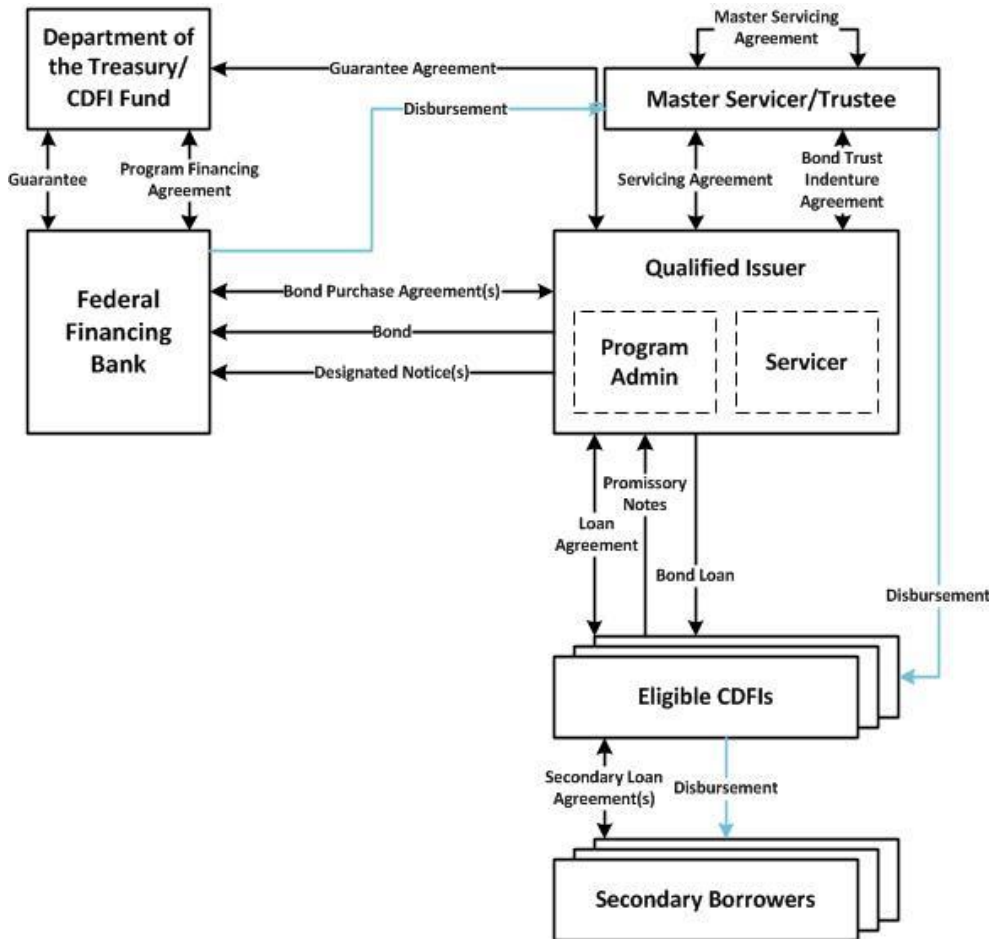


CDFI Bond Guarantee Program



- 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.

Bond Guarantee Program: Bond Issuance



Key Roles and Responsibilities:

1. **Treasury** provides Guarantee on Bonds issued by the Qualified Issuer. **CDFI Fund** administers the CDFI Bond Guarantee Program, which includes monitoring Eligible CDFIs and Secondary Borrowers to ensure compliance with program requirements.
2. **Federal Financing Bank** purchases Bonds from the Qualified Issuer and disburses funds to Eligible CDFIs through the Master Servicer/Trustee.
3. **Master Servicer/Trustee** collects repayments, disburses funds, and manages all accounts for Eligible CDFIs.
4. **Qualified Issuer** pools Eligible CDFIs and performs the roles of Program Administrator and Servicer, such as receiving and approving loan commitments from Eligible CDFIs.
5. **Eligible CDFIs** make Secondary Loans for Eligible Community and Economic Development Purposes.
6. **Secondary Borrowers** may include CDFIs, health care centers, senior facilities, small businesses, daycare centers, among others.

CDFI Fund Application Review



- The CDFI Fund determines which organizations receive awards from its limited resources through a competitive, triple-peer review process.
- Applicants must submit award applications that comprehensively present the organization's financial products, development services, and/or financial services within the target market, business strategy, community development performance, management, and financial health.
- Three external reviewers with substantial experience in the field are assigned to each financial assistance application and are responsible for providing independent analysis.
- The reviewers are charged with applying the scoring guidance impartially and consistently.
- Reviewers are expected to use their subject-matter expertise to evaluate the claims made by the applicant and use their judgment to resolve information that is contradictory or ambiguous.

FY 2013 CDFI Performance



CDFI Program Performance

| | |
|--|---------|
| • Number of full-time jobs created or maintained | 50,353 |
| • Number of businesses financed | 7,161 |
| • Number of affordable housing units financed | 26,391 |
| – Rental Units: 22,519; Owner Units: 3,872 | |
| • Amount of total loans/investments originated (in millions) | \$1,978 |
| • Number of total loans/investments originated | 24,285 |
| • Individuals served by financial literacy or other training | 293,666 |

NMTC Program Performance

| | |
|--|---------|
| • Number of full-time jobs created or maintained | 14,897 |
| • Number of projected construction jobs | 46,538 |
| • Square feet of commercial real estate financed (in millions) | 14.4 |
| • Total Qualified Low-Income Community Investments (in millions) | \$4,839 |
| • Percent of NMTC Program loans/investments in severely distressed communities | 78.54% |

CDFI Budget History



| | FY 2015 Enacted | FY 2014 Enacted | FY 2013 Enacted* | FY 2012 Enacted | FY 2011 Enacted |
|---|------------------------------|------------------------------|------------------------------|--------------------|--------------------|
| CDFI Financial and Technical Assistance | \$152.4 | \$145.4 | \$138.396 | \$146 | \$144.546 |
| Native Initiatives | 15 | 15 | 11.372 | 12 | 12 |
| Bank Enterprise Award | 18 | 18 | 17.058 | 18 | 22 |
| Capital Magnet Fund | 0 | 0 | 0 | 0 | 0 |
| Healthy Food Financing Initiative | 22 | 22 | 20.849 | 22 | 25 |
| CDFI Bond Guarantee Program | \$750 (bond authority) | \$750 (bond authority) | \$500 (bond authority) | 0 | 0 |
| Capacity Building to expand CDFI investments in underserved areas | 1 | 1 | 0 | 0 | 0 |
| Administration | 23.1 | 24.6 | 21.764 | 22.965 | 23 |
| Total | \$230.5 | \$226 | \$209.44 | \$221 | \$226.546 |

Dollars in millions. *FY 2013 Enacted includes rescission and sequestration reductions.