

Accessing Capital through the Community Development Financial Institutions (CDFI) Bond Guarantee Program

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The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

Community Development

- The Community Development function within the Federal Reserve System—consisting of individual departments at each of the 12 Federal Reserve Banks and at the Board of Governors—promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters

- **Lisa M. Jones**, Program Manager, Bond Guarantee Program, CDFI Fund, U.S. Department of the Treasury
- **Jennifer K. Novak**, Vice President of Capital Markets, Community Reinvestment Fund (CRF), USA
- **Douglas J. Bystry**, President and Chief Executive Officer, Clearinghouse CDFI



Overview of CDFI Bond Guarantee Program

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CDFI Bond Guarantee Program Requirements

- The CDFI Bond Guarantee Program provides long-term, fixed-rate capital to CDFIs to invest in our nation's economically underserved communities.
- The program was authorized by the Small Business Jobs Act of 2010 and is designed to function at no cost to taxpayers.
 - The program is a direct loan program with a zero federal credit subsidy.
- The program is 100 percent guaranteed by the U.S. Department of the Treasury for bonds or notes, including principal, interest, and call premium.

Capitalized terms used herein are referenced in the Bond Loan documents and legal agreements.

CDFI Bond Guarantee Program Requirements (continued)

- Minimum Bond issue size of \$100 million
- Minimum Bond Loan size of \$10 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 (i.e., borrowers).
- QIs must be Certified CDFI or an entity designated by a Certified CDFI to issue Bonds.

CDFI Bond Guarantee Program Requirements (continued)

- An Eligible CDFI borrower must be a Certified CDFI.
- Eligible CDFIs will be required to capitalize a 3 percent Risk-share Pool.
- Eligible CDFIs use Bond Loans to lend to Secondary Borrowers in the form of Secondary Loans.
- Bond Loans must be for the financing or refinancing of loans for community or economic development purposes.

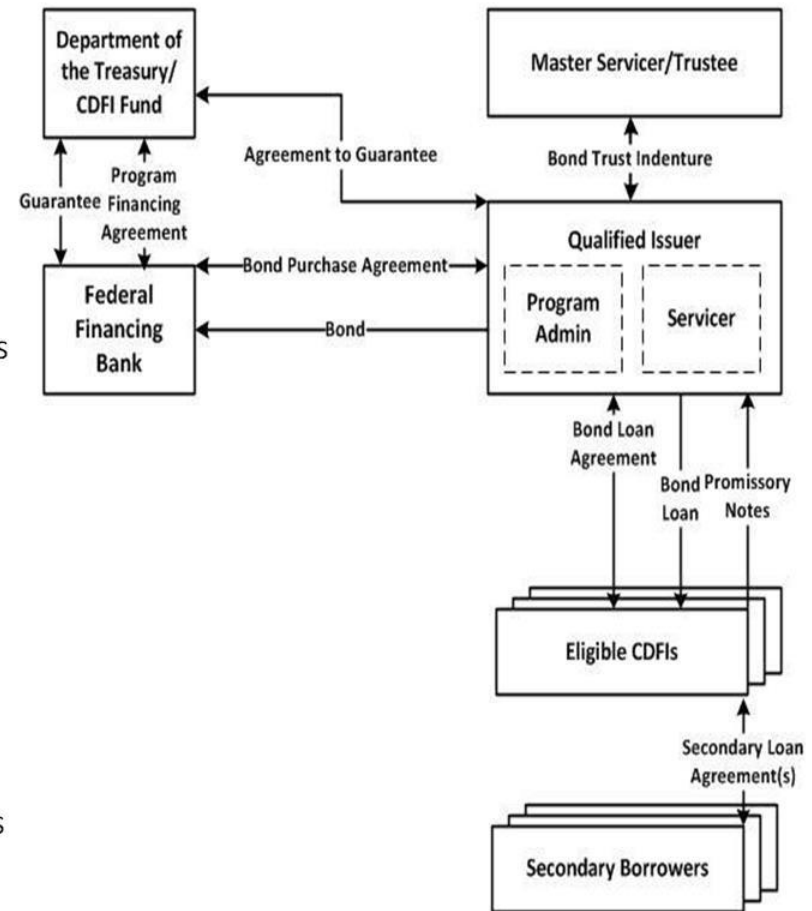
CDFI Bond Guarantee Program Requirements (continued)

- Secondary Loan asset classes include:
 - Rental housing
 - Commercial real estate
 - Rural infrastructure
 - Healthcare centers
 - CDFI-to-CDFI lending
 - Charter schools
 - Owner-occupied homes
 - Small businesses
 - Daycare centers
 - Licensed senior living and long-term care facilities
 - CDFI-to-financing entity lending
 - Not-for-profit

CDFI Bond Guarantee Program

Key Roles and Responsibilities

- The Secretary provides Guarantee on Bonds issued by the QI. The CDFI Fund administers the CDFI Bond Guarantee Program, which includes monitoring Eligible CDFIs and Secondary Borrowers to ensure compliance with program requirements.
- The FFB purchases bonds from the QI and disburses funds to Eligible CDFIs through the Master Servicer/Trustee.
- The Master Servicer/Trustee collects repayments, disburses funds, and manages trust accounts under the CDFI Bond Guarantee Program.
- The QI structures bond issues (pools of Eligible CDFIs) and performs the roles of Program Administrator and Servicer, such as receiving and approving Secondary Loan commitments from Eligible CDFIs.
- Eligible CDFIs finance or refinance Secondary Loans for eligible community and economic development purposes.
- Secondary Borrowers borrow from Eligible CDFIs, in the form of Secondary Loans, and lend in up to 12 asset classes that include rental housing, owner-occupied homes, commercial real estate, small businesses, and other asset classes.



CDFI Bond Guarantee Program Distinctions

- The CDFI Bond Guarantee Program structure adheres to Office of Management and Budget (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 CDFI Bond Guarantee Program will enforce well-managed collateral requirements for the Bond Loans to reduce the Federal Government’s risk of default and potential losses.
- Advances under the Bond Loan are debt instruments that must be repaid.

CDFI Bond Guarantee Program Distinctions (continued)

- 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 all Bond issuance costs.
- Recourse:
 - Bonds are nonrecourse to the QI.
 - Bond Loans are full recourse to the Eligible CDFI.
- Alternative financial structure is available to limit general recourse to the Eligible CDFI borrower.

CDFI Bond Guarantee Program Distinctions (continued)

- Security:
 - Bond Loans are secured by a first lien on collateral acceptable to the U.S. Department of the Treasury.
 - Collateral is assigned to trust accounts of the Master Servicer/Trustee.

CDFI Bond Guarantee Program Milestones

- Fiscal year (FY) 2015:
 - \$750 million in guarantee authority and \$680 million in guarantee applications
 - \$327 million in Bond issues and corresponding guarantees:
 - Three Bond issues for nine Eligible CDFIs
 - Seven Secondary Loan asset classes represented

CDFI Bond Guarantee Program Milestones (continued)

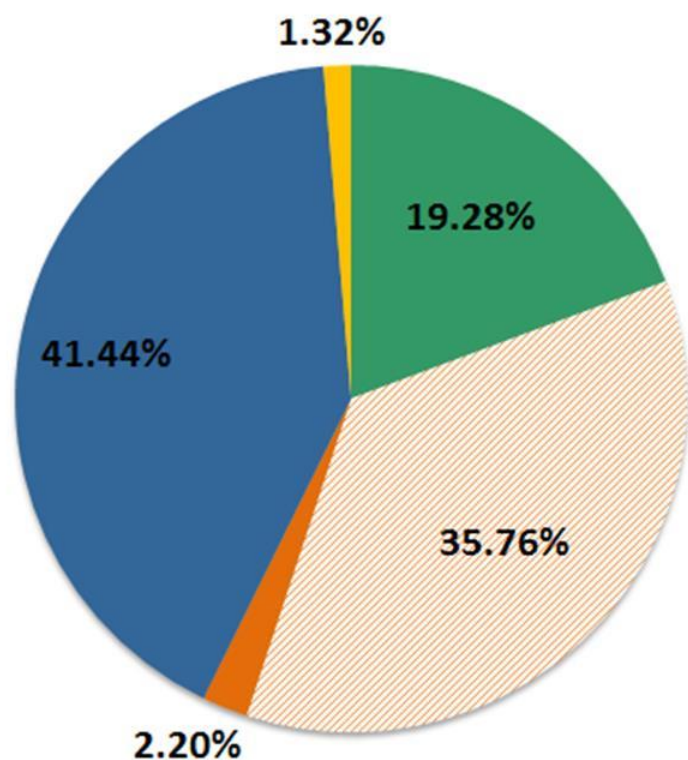
- Since inception:
 - \$2.0 billion in Guarantee authority and \$1.9 billion in Guarantee applications
 - \$852 million in Bond issues and corresponding Guarantees:
 - 7 bond issues for 16 Eligible CDFIs
 - 11 out of the 12 Secondary Loan asset classes
 - Geographic coverage includes rural, urban, and tribal communities
 - \$183 million in total disbursements or 22 percent of total Bond issues

Current and Pipeline of Bond Issues

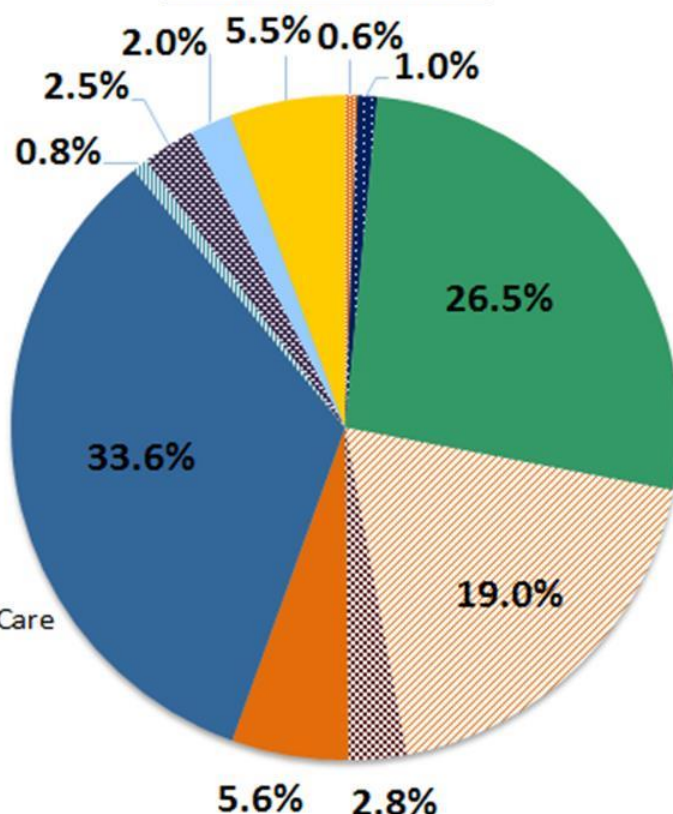
Asset Class Breakdown

Use of Bond Loan Proceeds

Program Disbursed Funds



Program Proposed



- CDFI to CDFI
- CDFI to Financing Entity
- Charter Schools
- Commercial Real Estate
- Daycare Centers
- Healthcare Facilities
- Rental Housing
- Rural Infrastructure
- Owner-Occupied Homes
- Senior Living and Long-Term Care
- Small Business
- Not-for Profit Organizations

CDFI Bond Guarantee Program

FY 2016 Application Round

- FY 2016 application round:
 - \$750 million in Guarantee authority
 - Application deadlines:
 - QI application – March 4, 2016
 - Guarantee application – March 18, 2016
 - Outreach and technical assistance workshops:
 - Washington, D.C. – February 16–18, 2016
 - San Francisco, CA – March 2, 2016 at the Federal Reserve Bank of San Francisco
 - Dallas, TX – March 4, 2016 at the Federal Reserve Bank of Dallas
- For more information or to register for Outreach, please review the CDFI Fund website at www.cdfifund.gov/bond



Qualified Issuer

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CRF's QI Process

- CRF maintains a formal and rigorous review process for each Eligible CDFI seeking a Bond Loan under our QI program. Our process includes:
 - Experienced professionals
 - Financial model
 - Upfront due-diligence process
 - Ongoing program administration and servicing
 - Post-closing support

CRF's QI Process (continued)

- Business plan for use of Bond proceeds
- Secondary Loan pipelines
- Organizational capacity to implement and manage a capital plan (i.e., deal flow, Secondary Loan amortization, prepayment and pricing, and borrowing base)
- Experience in sourcing, underwriting, closing, and monitoring the selected asset classes
- Borrowing capacity (profitability, asset quality, equity position, and leverage capacity)
- Other considerations

Putting the Bond Proceeds to Work: The Basics

- Functions as a borrowing-base facility
- Eligible Secondary Loan(s) can be substituted throughout the life of the program
- Bond prepayment – mandatory or optional redemption:
 - Market or par call provision – subject to additional cost and restrictions at draw
 - Defeasance – set aside sufficient cash for retirement of debt upon maturity
- Product profitability:
 - Term and amortization of Bond Loans versus Secondary Loans
 - Spread
 - Credit and loss assumptions

Pipeline of Eligible Secondary Loans

- Historical experience in sourcing, underwriting, closing, and monitoring the selected asset classes
- 12- and 24-month commitment (closing) thresholds
- 100 percent deployed in 5 years
- Secondary Loan requirements referenced in program's interim regulations

Organizational Capacity

- Experience in sourcing, underwriting, closing, and monitoring the selected asset classes
- Financial capacity to warehouse loans
- Default and collateralization considerations with current or future funders
- Ability to secure waivers from existing lenders
- Covenant themes:
 - Profitability
 - Leverage
 - Asset quality
 - Delinquency
 - Unrestricted net assets

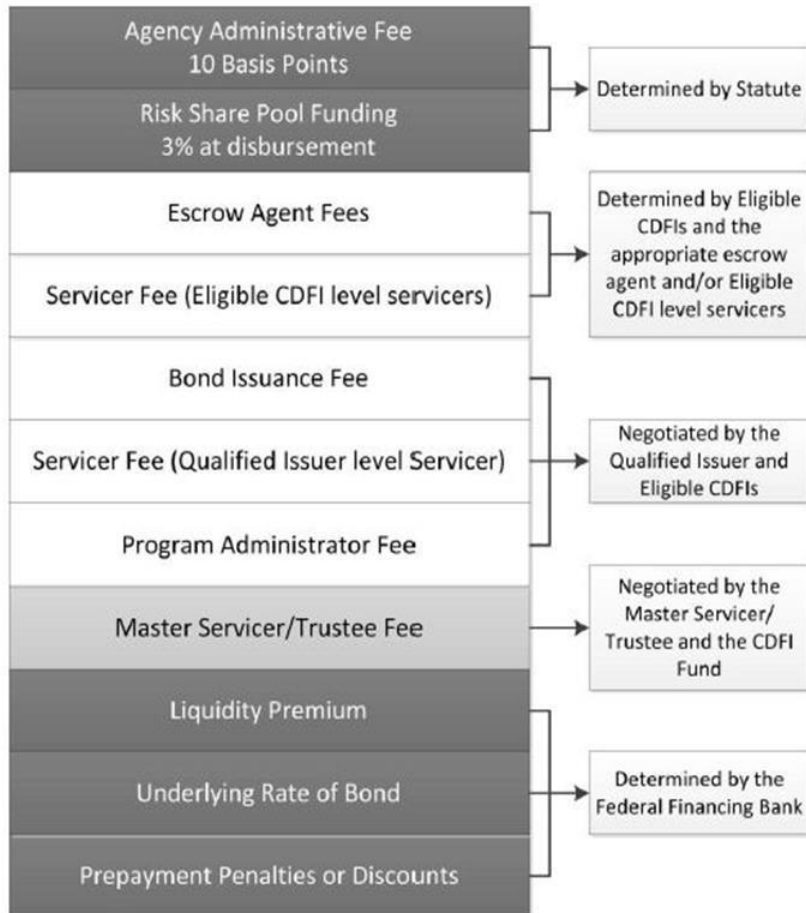
What Decisions Do Eligible CDFIs Need to Make?

- QI
- Asset classes
- Financial covenants
- Overcollateralization level
- Term (i.e., up to 29.5 years) and payment frequency:
 - Prepayment provisions
 - Credit enhancements (if needed)



**QI and Eligible CDFI
document in Term
Sheet at time of
Guarantee
Application**

Bond Issuance Costs



Note: Escrow and Custodian Agent are required. In addition, Counsel to Borrower, Master Servicer/Trustee (MST), QI, and Escrow Agent are not noted in this chart.

All in Basis Point Indicative Pricing*

SAMPLE ALL IN BP COST

<i>T-Rate as of February 9, 2016 (FFB)</i>	4 @ \$25M 29.5 Year BPS	4 @ \$25M 29.5 Year BPS
Bond Term		
Treasury Rate	2.195%	2.195%
Liquidity Spread	0.375%	0.375%
Base Rate	2.570%	2.570%
CDFI Fund (Agency) Admin Fee	0.100%	0.100%
Master Servicer Cost	0.160%	0.160%
QI Program/Servicer Fee	0.365%	0.200%
Total Ongoing Bond Guarantee Program Fees	0.625%	0.460%
Cost of Funds	3.195%	3.030%
Spread over Treasury	1.000%	0.835%
Implied Costs to Consider		
Implied Cost of 3% Reserve	0.140%	0.140%
Cost of Funds	3.335%	3.170%
Spread over Treasury	1.140%	0.975%

Upfront Fixed Costs

Typically quoted in bps on amount of Bond Loan.

Legal costs of the QI, Master Servicer Trustee, and Eligible CDFI are NOT included in this analysis. Escrow and custodian costs are typically billed directly to the Eligible CDFI.

*Eligible CDFIs have the opportunity to purchase a call provision at each draw requisition. Liquidity premium is determined by the FFB with CDFI Fund.

*Pricing is for illustrative purposes only. Please consult individual QIs for specific pricing details. Generally, pricing is derived as a result of the fixed obligations QIs are obligated to perform under the regulations per Bond Issuance for each Eligible CDFI participating, as well as each piece of Eligible Secondary Collateral that is posted to the borrowing base.

Application – Review – Due Diligence – Underwriting – Closing Process

- Eligibility screen and completeness of application
- Underwriting:
 - Credit evaluation
 - Conference calls
 - OMB
- Due diligence/on-site visit:
 - Focus on safety and soundness
 - Completeness of policies and compliance procedures
 - Loan underwriting and servicing
 - Selected file review

Key Resources

- CDFI Fund Bond Guarantee Program:
www.cdfifund.gov/bond
- 12 CFR Part 1808:
<http://federalregister.regstoday.com/ViewSummary.aspx?ds=LATEST&ct=CITA&cv=12%20CFR%201808>
- OMB Circular A-129 Revised:
http://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev_2013/pdf/a-129.pdf



Eligible CDFI

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CDFI Bond Guarantee Program Challenges

- High threshold for participation in the program due to zero credit subsidy
- Must be compatible with existing capital debt structure
- Specific types of collateral for Secondary Loans accepted for pledging under capital draws
- First lien position real estate has been the primary source of collateral for Secondary Loans.

CDFI Bond Guarantee Program Opportunities

- Reliable source of long-term (30-year) debt capital
- Amount of debt capital is significant, allowing for growth and expansion.
- Fixed interest rate over the long-term increases margin in rising interest rate environment
- CDFI bond staff is willing to find solutions to issues/problems.
- Secondary Borrower must sign certain representations regarding the use of the Bond Loan proceeds.

Washoe Native American Development



Washoe Native American Development (continued)

- Truck stop/convenience store on reservation land
- Nongaming tribe with limited revenue
- Use of Federal New Market Tax Credits combined with State Tax Credits
- Bond allowed pledge of alternative cash flow as allowable “other” collateral

Washoe Native American Development (continued)



Source: Washoe Tribe of Nevada and California

Questions

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org
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Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our web site, and in the next few days we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our web site along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the practice of community development, or small business development.