MATCHING FUNDS GUIDANCE

FY 2016 CDFI & NACA Program Application

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THE CDFI FUND
U.S. Department of the Treasury
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OVERVIEW

The legislation that authorizes the CDFI and NACA Program requires that financial assistance (FA) awards must be matched with funds from sources other than the federal government on a dollar-for-dollar basis. Specific matching funds requirements are described in the Notice of Funds Availability (NOFA).

For each dollar of FA awarded to the Applicant, the Applicant must provide documentary evidence that it has received one dollar of non-federal matching funds. The CDFI Fund requires Applicants to submit documentation of matching funds at the time of application. Applicants may provide different types and sources of matching funds to fulfill this requirement.

If the CDFI Fund makes an FA award to the Applicant, the award will be in the same form as the matching funds offered by the Applicant (meaning, as a grant, loan, or an equity investment). For example, if the Applicant provides an eligible grant as matching funds, the CDFI Fund will make the FA award as a grant. Further, the CDFI Fund will match a loan with a loan, a deposit with a deposit, and an equity investment with an equity investment. For purposes of matching funds, the Applicant’s retained earnings and in-kind donations will be matched with a grant.

The CDFI Fund reserves the right to rescind its approval of all or a portion of a FA award if an Applicant fails to obtain the required matching funds In-hand by the deadline set forth in the FY 2016 CDFI and NACA Program NOFA. In no event will any portion of a FA award be paid to the Applicant if the required evidence of the corresponding matching funds has not been provided to and approved by the CDFI Fund.
STEP 1: DETERMINE THE STATUS OF MATCHING FUNDS

Requirement:
The following FA Applicants must provide documentary evidence that it has received matching funds in an amount that is at least 50 percent of its FA award request:

1. Category II/Core FA Applicants.

Congress waived the Matching Funds requirement for SECA FA, NACA FA, and HFFI-FA applicants in FY 2016, meaning that those Applicant types do not have to submit Matching Funds.

Evidence of matching funds is not required for Technical Assistance grant awards under the CDFI or NACA Program.

If during the CDFI Fund’s application review, any of the matching funds are found to be ineligible, or had inadequate/ incomplete documentation, the CDFI Fund reserves the right to contact the Applicant to submit new or supplementary documentation within a period established by the CDFI Fund.

Date
In order to be eligible, matching funds must be received within the “Matching Funds Window”: January 1, 2014 to January 15, 2017. Please note: the grant or loan can be awarded outside of the matching funds window, but funds must be received within the window to be considered eligible.

“Committed” funds are matching funds that will need to be received by the Applicant before the end of Matching Funds Window (January 15, 2017). Funds can be committed prior to the Matching Funds Window.

“In-hand” funds are matching funds received by the Applicant on or after January 1, 2014, and on or before the Application deadline.

Documentation of receipt of all matching funds is due to the CDFI Fund by January 31, 2017. The following documentation, depending on the type of award being requested, must be included in the Application:

- Loan - the loan agreement and/or promissory note;
- Grant - the grant letter or agreement for all grants of $100,000 or more;
- Equity Investment - the stock certificate and shareholder agreement;
- Retained Earnings - audits or call reports from regulating entity; and
- Third Party In-Kind Contribution- evidence of receipt of contribution and valuation;

and
• Clearly legible documentation that demonstrates actual receipt of the matching funds including the date of the transaction and the amount, such as a copy of a check or a wire transfer statement.

• Grants under $100,000 only require the source name, amount, date of receipt, and source contact information. Documentation of this information should be available if audited.

Status
Determine whether the matching funds documentation is “In-hand” or “Committed” at the time of Application submission.

1. **Committed**: Matching funds are Committed when the Applicant has entered into or received a legally binding commitment from the matching funds source showing the matching funds will be disbursed to the Applicant at a future date. The matching funds have not been received by the Applicant but the Applicant has provided evidence that the funds will be disbursed within the Matching Funds Window.

   The Applicant must provide documentation demonstrating that it has entered into or received a legally binding commitment (e.g. a grant or loan agreement signed by funder). This may occur outside of the Matching Funds Window but documentation needs to be provided that confirms that the funds will be disbursed within the Matching Funds Window.

   • For example, a Recipient can use funds from a grant awarded prior to January 1, 2014, as long as the funds are or will be received between January 1, 2014, and January 15, 2017.

   • Eligible retained earnings will be considered "Committed" if they have been calculated using a draft audit or internally prepared statements, so long as the Applicant will receive an audit at a future date.

   • Commitments may be contingent upon receipt of a CDFI Program award, and other contingencies deemed reasonable by the CDFI Fund, in its sole discretion.

   • For Depository Institution Applicants using the “Retained Earnings since Inception” Option #3, matching funds will be considered as “Committed” until the Applicant has demonstrated an increase its deposits and/or loan as per the NOFA - see the “Retained Earnings” section for further detail.

   • FA awards will be made in comparable form and value to the eligible In-Hand and/or Committed matching funds documentation submitted by the Applicant at the time of Application.
• After awards have been announced, Award Recipients may request the CDFI Fund’s permission to change the form of all or a part of their award from loan to grant (by producing eligible grant matching funds), but will only be eligible to receive a grant equal to the federal credit subsidy amount associated with the original loan. Applicants will also experience delays in payments if requested award form changes are approved by the CDFI Fund.

2. **In-hand**: Matching funds are considered eligible and In-Hand when the Applicant receives payment for the matching funds and includes acceptable documentation in the Application, showing the source, form (e.g., grant, loan, deposit, and Equity Investment), amount, and the date the funds came into physical possession of the Applicant.

• An Applicant may offer evidence of non-federal funds that were Committed prior to the Matching Funds Window as long as the receipt of matching funds occurred during the Matching Funds Window.

• For in-kind donations, the donated services must be received by the Applicant.

**STEP 2: DETERMINE ELIGIBILITY OF MATCHING FUNDS**

**Eligible Sources**

Non-federal funds or in-kind donations may be used as matching funds for CDFI Program FA awards.

The following funds are considered non-federal and eligible to be offered as matching funds for a CDFI Program FA award:

• Federal Home Loan Bank (FHLB) funds (grants and loans);
• Fannie Mae and Freddie Mac corporate and foundation funds;
• NeighborWorks America, if such funds are not from NeighborWorks’ federal appropriation. Please provide appropriate clarification and contact information to confirm;
• State Small Business Credit Initiative (SSBCI) funds;
• Indian Self-Determination and Education Assistance Act of 1974 (26 USC 450) grant funds;
• Tribal government funds not obtained from a federal government source;
• Bank Enterprise Award (BEA) Program award proceeds provided by a non-Affiliated BEA Program Awardee to an Applicant;
• Equity Investments and CDFI Support Activities, as defined in the BEA Program regulations, provided to an Applicant by a BEA Program Awardee (excluding direct provision of technical assistance by a BEA Awardee to an Applicant);
• Any other funds from private sources, such as foundations and individuals;
• Retained earnings adjusted to account for federal sources of revenue and previously used matching funds. Please refer to the section below and the Retained Earnings Guidance for more information;
• Loan and fee forgiveness occurring within the match period may be applied as matching funds in the form of a grant. A loan used as matching funds for a previous FA award is not eligible if the loan is being forgiven;
• In-kind donations from non-federal sources (e.g. pro-bono legal counsel or land); and
• Donations of securities such as stocks and loan receivables can be used as matching funds.
• Other matching funds determined to be eligible by the CDFI Fund.

Ineligible Sources

Federal Sources
Matching funds must come from sources other than the federal government. For the purposes of FA awards, the following sources are considered federal and ineligible for use as matching funds:

• Funds or in-kind donations obtained directly from a federal agency or indirectly from a pass-through entity (state agency or other entity);
• Community Development Block Grant (CDBG) funds (even if received through a local government agency);
• Bank Enterprise Award (BEA) Program award proceeds provided by an Affiliated BEA Program Awardee to an Applicant;
• Native American Housing Assistance and Self-Determination Act (NHASDA) funds;
• HOME Funds (even if received through another pass-thru entity).
• Other matching funds deemed as federal sources by the CDFI Fund.

Previously Used Matching Funds
Matching funds utilized for a prior CDFI or NACA Program award or under another federal grant or award program cannot be used to satisfy the current matching funds requirement. This rule applies to all forms of matching funds, including retained earnings and in-kind donations.

Only the portion of the matching funds tied to the prior award will be considered ineligible. For example, if only a portion of a grant was used as matching funds, the remaining unused portion will still be available to use as matching funds in other applications.

If an Applicant offers matching funds documentation from an organization that was a prior Recipient under the CDFI Program, the Applicant must be able to prove to the CDFI Fund’s satisfaction that such funds do not consist, in whole or in part, of CDFI Program funds or other federal funds.
**Other Ineligible Sources**

1. Repayment of loan principal and interest is not an eligible form of matching funds.

2. Funds from an “anonymous” source are not an eligible form of matching funds.

3. Proceeds from a service contract may not be used as matching funds.

The CDFI Fund will determine, in its sole discretion, whether an agreement constitutes a service contract between the funder and the Applicant. The following are some of the factors that the CDFI Fund will consider in reviewing these types of agreements:

- Whether the principal purpose of the contract is to benefit the target market of the Applicant, and not to acquire property or services for the direct benefit of the entity requesting the contract services (Contracting Entity);
- Whether the Contracting Entity has substantial involvement in carrying out the contract;
- Whether the Contracting Entity retains title and rights to the work product of the contract; and
- Whether the Contracting Entity is the lender of record and receives or controls loan repayments, if the contract involves loans to third parties.

**Rules for Matching Funds Received From Affiliates**

If the Applicant submits matching funds that have been provided by an Affiliate, the source of the matching funds must be non-federal, not previously used as match, and adhere to the following guidelines:

- The Applicant must demonstrate that the Affiliate matching funds were disbursed to the Applicant during the Matching Funds Window and are non-federal dollars.
- In no event will an Affiliate’s transfer of federal funds to the Applicant be eligible matching funds for a FA award.
- An Affiliate may provide matching funds from a third party (i.e., a pass-through grant) or from its retained earnings.
  i. In the case of third party funds, it is helpful, but not required, that the Applicant provides documentation demonstrating that the original source of funds has given permission for the transfer of funds from the Affiliate to Applicant.

- An Affiliate may provide funds to an Applicant that the Affiliate received prior to the Matching Funds Window, provided that they are received by the Applicant during the Matching Funds Window.
- The Applicant is required to provide documentation demonstrating that the funds are non-federal. The documentation requirements for funds received from an Affiliate are the same as those for all other sources of matching funds (See Step 3 for more detail).
• In the case of using the Affiliate’s retained earnings as matching funds, the Affiliate funds should meet the same standards and policies outlined for retained earnings calculations. Refer to Retained Earnings section for further clarification.

Rules for In-Kind Contributions
Third party in-kind contributions are the value of non-cash contributions (i.e., property or services) provided by non-Federal third parties. Third party in-kind contributions will be considered to be in the form of a grant for matching funds purposes.

Third party in-kind contributions may be in the form of real property, equipment, supplies, and other expendable property, and the value of goods and services directly benefiting the eligible activities.

For third-party in-kind contributions, the fair market value of goods and services must be documented. Applicants will be responsible for documenting the value of all in-kind contributions as described in the Uniform Administrative Requirements.

Rates for goods must be the current fair market value for donated land, equipment, space or loaned equipment. Rates for donated land can also be the value of the remaining life of the property recorded in the accounting records at time of donation.

Rates for volunteer services must be consistent with those paid for similar work by the organization. If the in-kind contribution is not a service typically provided by the organization, the rate must be consistent with similar work.

All in-kind contributions must be verifiable from the organization’s or donor’s records and not used towards match for other Federal awards.

Loan Eligibility
If the Applicant wishes to offer a loan as match for a FA award, the loan must meet the following eligibility requirements:

1. The loan must have a term of three years or longer;
2. A line of credit is an eligible form of matching funds if the term of the line of credit or draw-down(s) is three years or longer. The CDFI Fund will only make award disbursements to an awardee based on draw-downs on the line of credit up to the maximum value of the line of credit.
3. Loan renewals with a renewal term longer than three years may be eligible in the following scenarios:
   i. Loans Renewed Prior to Maturity: The CDFI Fund may match loans that: (a) were originated prior to the Matching Funds Window; and (b) were renewed (prior to maturity) during the Matching Funds Window if such renewal provides new, additional funds to the Awardee.
ii. The CDFI Fund will only match the amount of the new, additional funds provided as part of the loan renewal.

iii. Loans Renewed At or After Maturity: The CDFI Fund may match loans that: (a) were originated prior to, and matured prior to or during, the Matching Funds Window; and (b) were renewed during the Matching Funds Window. The CDFI Fund will match the full face value of the renewed loan less any principal repayments.

Form of Loan-based Matching Funds
If the Applicant is selected to receive an FA award, the CDFI Fund will provide all matching funds in the form of a loan with a standard loan product, with the following terms:

- Amount: Based on eligible matching loan
- Rate: 2.2% fixed rate
- Term: Thirteen (13) years
- Principal Payment: Principal amortized payments due in years eleven through thirteen
- Interest Payments: Semi-annual interest-only payments due in years one through ten
- Lender Position: Pari-Passu with Senior Lenders

Retained Earnings
An Applicant may use its retained earnings to match a request for a CDFI Program FA grant. An Applicant that proposes to meet all or a portion of its matching funds requirements by committing available earnings retained from its operations is subject to the restrictions described in this section.

Retained earnings shall be calculated as directed by the CDFI Fund and the excel calculator and related guidance materials. Non-regulated institutions (for profit and non-profit), banks and insured credit unions each have different financial reporting and therefore use separate excel calculators.

Retained earnings used as matching funds will be used after all other sources of matching funds have been utilized.

Retained earnings are calculated at the end of an Applicant’s fiscal year end based on audited financial statements or applicable call reports.

The Applicant can combine increased retained earnings for multiple fiscal years within the Matching Funds Window and/or a three year average (provided the retained earnings by year are only used once).

Retained Earnings Calculator
All Applicants should use the Retained Earnings Calculator specific to each institution type to determine the amount available to the Applicant to use as retained earnings. Please read the following guidance for each institution type below.
Non-regulated institutions
Non-regulated institutions have two options to calculate retained earnings:

1. **Fiscal Year End**: The adjusted increase in net assets (i.e. adjusted income minus adjusted expenses) that has occurred over a fiscal year end within the Matching Funds Window.
2. **Three Year Average**: The annual average of such increases that occurred over the Applicant’s three most recent fiscal years.

Banks
Banks have three options to calculate retained earnings:

1. **Fiscal Year End** – The increase in adjusted retained earnings that has occurred over a fiscal year end within the Matching Funds Window.
2. **Three Year Average** – The annual average of such increases that occurred over the Applicant’s three most recent fiscal years.
3. **Since Inception** – The entire retained earnings that have been accumulated since the Applicant’s inception. If using the **Since Inception** option, the Applicant must also satisfy three tests prior to disbursement of the Award.
   - **Total Retained Earnings Test**: Applicant must ensure there are enough retained earnings to match the award amount.
   - **Annual Increase to Matching Funds Requirements Test**: CDFI Fund will verify that the Applicant increased its loans and/or deposits by 25% of the requested award amount between December 31, 2014 and December 31, 2015.
   - **Increase to Disbursement Requirements Test**: Applicant must increase Deposits and/or Total Loans and Leases in a one-to-one match of the award amount in order to receive a disbursement from the award. The CDFI Fund will measure the increase beginning on or after March 31, 2016 and ending on or before the first performance period.

The CDFI Fund will verify the amounts entered in the data portion of the calculator using the Applicant’s call report. If the Applicant is chosen to receive funding, the CDFI Fund will confirm the increase in Total Member and Non-Member Shares/Deposits and/or Total Loans and Leases using the Applicant’s call report. The CDFI Fund will measure the increase on a quarterly basis.
Insured Credit Unions
Credit Unions have three options to calculate retained earnings:

1. **Fiscal Year End** – The increase in adjusted retained earnings that has occurred over a fiscal year end within the Matching Funds Window.
2. **Three Year Average** – The annual average of such increases that occurred over the Applicant’s three most recent fiscal years.
3. **Since Inception** – The entire retained earnings that have been accumulated since the Applicant’s inception. If using the **Since Inception** option, the Applicant must also satisfy three tests prior to disbursement of the Award.

   I. **Total Retained Earnings Test:**
   Applicant must ensure there are enough retained earnings to match the award amount.

   II. **Annual Increase to Matching Funds Requirements Test:**
   CDFI Fund will verify that the Applicant increased its share/loans and/or deposits by 25% of the requested award amount between December 31, 2014 and December 31, 2015.

   III. **Increase to Disbursement Requirements Test:**
   Applicant must increase Total Member and Non-Member Shares/Deposits and/or Total Loans and Leases in a one-to-one match of the award amount in order to receive a disbursement from the award. The CDFI Fund will measure the increase beginning on or after March 31, 2016 and ending on or before the first performance period.

   The CDFI Fund will verify the amounts entered in the data portion of the calculator using the Applicant's NCUA 5300 call report. If the Applicant is chosen to receive funding, the CDFI Fund will increase in Total Member and Non-Member Shares/Deposits or Total Loans and Leases using the Applicant’s NCUA 5300 call report. The CDFI Fund will measure the increase on a quarterly basis.

**STEP 3: REVIEW DOCUMENTATION**
The following is a list of acceptable forms of documentation, per each type of Matching Fund provided.

**Grants**
- For grant requests that are greater than or equal to $100,000, Applicants must submit supporting documentation consisting of:
  - Legal documentation including: signed copies of grant transmittal letters; grant agreements; grant commitment letters; official emails;
• Proof of payment (copy of check, bank statement, wire transfer, letter from grantor), if In-hand.
• For each grant that is less than $100,000, Applicants must provide the source name, amount, date of receipt, and source contact information. No further documentation is required; however, documentation of this information should be available if audited.

In-Kind
• For in-kind donations that are greater than or equal to $100,000. Applicants must submit supporting documentation consisting of:
  • Legal documentation including: signed copies of letters or official emails from third party noting type of in-kind contribution, fair market value for services or goods provided and total value provided. Please note: Upon request, documentation of fair market value must be provided.
  • All documentation, must include date services or goods were provided and methodology for valuation of services or goods.
• For each in-kind donation less than $100,000, the Applicant must provide the third party source, fair market value, date, and source contact information. No further documentation is required; however, documentation of this information should be available if audited.

Loans
• Promissory note/loan agreement/commitment letter citing terms.
• Proof of payment (copy of check, wire transfer, bank statement, or note in audited statements), if In-hand.

Renewed Loans
• Documentation of original loan agreement with maturity date and dollar amount.
• Renewal documentation with date and dollar amount renewed.
• Proof of payment (copy of check, wire transfer, bank statement, or note in audited statements) of original amount and increased amount (if applicable).

Grant in the form of Notes Receivable (to be matched with a grant)
• A valuation methodology of the portfolio to be transferred.
• A legal agreement.
• Proof of assignment of promissory notes to Applicant.
• A list of the assigned promissory notes.

Loan Forgiveness
• Agreement between parties concerning loan forgiveness along with schedule of payments forgiven.
• Proof of payment of original receipt of loan funds or note in audited statements.

**Deposits**
• Certificates of deposit agreement citing terms.
• Proof of payment (copy of check, bank statement, wire transfer, or note in audited statements), if In-hand.

**Secondary Capital Loan** (to be matched with the Standard Loan Product)
• Secondary Capital Agreement and the Disclosure and Acknowledgement Statement.
• Proof of payment (copy of check, bank statement, wire transfer, or note in audited statements), if In-hand.

**Equity Investments**
• Stock purchase agreement (if any).
• Shareholders agreement.
• Stock certificates.
• Proof of payment (copy of check, bank statement, wire transfer, or note in audited statements), if In-hand.

**Retained Earnings**
• Completion of the institution type-specific Retained Earnings Calculator (See Retained Earnings Guidance for further instructions on submitting Retained Earnings.)
• Audited financial statements or call report.

**STEP 4: CREATE MATCHING FUNDS RECORDS IN AMIS**
Please see the AMIS Manual for step by step instructions on this process. Below is a high-level overview of the matching funds process in AMIS:
### STEP 5: ASSIGNING MATCHING FUNDS TO YOUR APPLICATION

Once Matching Funds records with Receipt Summaries are created in your Program Profile, you must assign Matching Funds records to your Funding Application Record using the Matching Funds Used related list in the application. Please see the AMIS Manual for step-by-step instructions on this process. Below is a high-level overview of how this process works:

<table>
<thead>
<tr>
<th>Program Profile</th>
<th>Create Matching Fund Record</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Select Record Type</td>
</tr>
<tr>
<td></td>
<td>Grant, Loan, or Retained Earnings</td>
</tr>
<tr>
<td></td>
<td>Select FA Activity</td>
</tr>
<tr>
<td></td>
<td>Financial Products, Financial Services, Development Services, Loan Loss Reserves, or Capital Reserves</td>
</tr>
<tr>
<td></td>
<td>Receipt Summary</td>
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<tr>
<td></td>
<td>Add Receipt Summary to Matching Fund Record for Each Discrete Payment or Commitment</td>
</tr>
<tr>
<td></td>
<td>Receipt Summary Record Type</td>
</tr>
<tr>
<td></td>
<td>In-Hand, Committed, or Retained Earnings</td>
</tr>
<tr>
<td></td>
<td>Receipt Summary Detail</td>
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<tr>
<td></td>
<td>Amount, Check/Wire Transfer #, Date, etc.</td>
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<tr>
<td></td>
<td>Attach Documentation</td>
</tr>
<tr>
<td></td>
<td>Loan/Grant Agreement, etc.</td>
</tr>
</tbody>
</table>

**Flowchart:**

1. **Program Profile**
   - Create Matching Fund Record
2. **Select Record Type**
   - Grant, Loan, or Retained Earnings
3. **Select FA Activity**
   - Financial Products, Financial Services, Development Services, Loan Loss Reserves, or Capital Reserves
4. **Receipt Summary**
   - Add Receipt Summary to Matching Fund Record for Each Discrete Payment or Commitment
5. **Receipt Summary Record Type**
   - In-Hand, Committed, or Retained Earnings
6. **Receipt Summary Detail**
   - Amount, Check/Wire Transfer #, Date, etc.
7. **Attach Documentation**
   - Loan/Grant Agreement, etc.