CDFI Bond Guarantee Program

102

FY 2019
## Today’s Schedule

<table>
<thead>
<tr>
<th>Topic</th>
<th>Time</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration</td>
<td>09:00 am – 09:30 am</td>
<td>30 min</td>
</tr>
<tr>
<td>Program Requirements, Structure(s), and Participants – Day 1 Recap</td>
<td>09:30 am – 10:00 am</td>
<td>30 min</td>
</tr>
<tr>
<td>Case Study 1 – General Recourse-Secured Structure</td>
<td>10:00 am – 10:30 am</td>
<td>30 min</td>
</tr>
<tr>
<td>Break</td>
<td>10:30 am – 10:45 am</td>
<td>15 min</td>
</tr>
<tr>
<td>Case Study 2 – CDFI-Financing Entity for Single Family Mortgages</td>
<td>10:45 am – 11:15 am</td>
<td>30 min</td>
</tr>
<tr>
<td>Case Study 3 – Alternative Financing Structure</td>
<td>11:15 am – 11:45 am</td>
<td>30 min</td>
</tr>
<tr>
<td>Term Sheet – General Recourse and Alternative Financial Structure</td>
<td>11:45 am – 12:15 pm</td>
<td>30 min</td>
</tr>
<tr>
<td>Lunch</td>
<td>12:15 pm – 01:30 pm</td>
<td>75 min</td>
</tr>
<tr>
<td>Financing in Rural Communities and the Rural Infrastructure</td>
<td>01:30 pm – 02:00 pm</td>
<td>30 min</td>
</tr>
<tr>
<td>Lending Class</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Qualified Issuer Discussion Panel: Evaluation and Guarantee Application Process</td>
<td>02:00 pm – 02:45 pm</td>
<td>45 min</td>
</tr>
<tr>
<td>Break</td>
<td>02:45 pm – 3:00 pm</td>
<td>15 min</td>
</tr>
<tr>
<td>Current Qualified Issuer Discussion Panel: Deal Structuring</td>
<td>3:00 pm – 03:30 pm</td>
<td>45 min</td>
</tr>
<tr>
<td>Post-Issuance Reporting and Requisition Process</td>
<td>03:30 pm – 04:00 pm</td>
<td>30 min</td>
</tr>
<tr>
<td>Q&amp;A and Closing Remarks</td>
<td>04:15 pm – 04:30 pm</td>
<td>30 min</td>
</tr>
</tbody>
</table>
Agenda

- **Introduction and Overview**
- Program Requirements, Structure(s), and Participants – Day 1 Recap
- Case Study 1 – General Recourse-Secured Structure
- Case Study 2 – CDFI-Financing Entity Structure (Home Mortgages)
- Case Study 3 – Alternative Financing Structure
- Term Sheet – General Recourse and Alternative Financial Structure
- Financing in Rural Communities and the Rural Infrastructure Lending Class
- Qualified Issuer Discussion Panels
  - QI Application Process
  - Evaluation and Guarantee Application Process
  - Deal Structuring
- Requisition Process
- Questions & Answers and Closing Remarks
BG Program Staff Organizational Chart

Brian Donovan, Acting Program Manager

Credit and Risk Management Unit (CRM)
- Brian Jackson (Lead)
- Pablo Rieckhof (Analyst)
- Steven Davidson (Detariee)

Compliance Management and Monitoring Unit (CMM)
- Wendy Diao (Lead)
- Patricia Hesler (Analyst)

Portfolio Management and Loan Monitoring Unit (PMLM)
- Vacant (Lead)
- Paolo Sacca (Analyst)

Origination Unit
- Vacant (Manager)
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The CDFI Bond Guarantee Program is a Federal Credit Program designed to provide long-term, fixed rate capital to certified CDFIs.

CDFI Bond Guarantee Program documents are available on the CDFI Fund’s website at www.cdfifund.gov. Available documents include, but are not limited to, those identified below.

– FY 2019 Notice of Guarantee Availability (NOGA)
– Interim Program Regulations
– Application Materials
– Secondary Loan Requirements
– Program Legal Documents, including:
  • Sample Term Sheets
  • Bond Loan Agreement;
  • Bond Trust Indenture; and
  • Agreement to Guarantee.
Policy Goals and Objectives

• The CDFI Bond Guarantee Program seeks to achieve the following policy goals and programmatic objectives, while simultaneously mitigating risk and minimizing costs for taxpayers:
  – Promoting community and economic development in Low-Income or Underserved Rural Areas, including:
    • Origination of loans for small business start-ups and expansion;
    • Financing businesses that support job creation;
    • CDFI-to-CDFI lending; and
    • Financing housing and community facilities.
  – Supporting Eligible CDFIs’ lending activities by providing access to low-cost, long-term capital.
The CDFI Bond Guarantee Program is a Federal Credit program within the U.S. Department of the Treasury.

Program Regulations are informed by overarching, standardized lending policies that are applicable to all Federal Credit programs.

The CDFI Bond Guarantee Program must adhere to Federal requirements and lending guidelines, including:
- Federal Credit Reform Act (FCRA) of 1990, as amended;
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 1000);
- OMB Circular A-129;
- OMB Circular A-11;
- OMB Circular A-136 and U.S. Standard General Ledger;
- Federal Accounting Standards Advisory Board (FASAB) No. 2 Accounting for Federal Credit Programs; and
The Federal Financing Bank (FFB) is the sole purchaser of Bonds issued under the CDFI Bond Guarantee Program, due to the 100 percent Guarantee by the Secretary of the Treasury.*

Congress did not appropriate funding for any credit losses under the CDFI Bond Guarantee Program; therefore, applicants are required to demonstrate high credit quality and strong recovery rates in the event of default.

Definitions under Federal Credit policy are specific and may differ from usage outside of Federal Credit. Understanding precise definitions of terms under Federal Credit policy is vital for participation in the CDFI Bond Guarantee Program.

* OMB Circular A-129 Section II, subsection C, paragraph 6: “Guarantees of the timely payment of 100 percent of the loan principal and interest against all risk create a debt obligation that is the credit risk equivalent of a Treasury security. Accordingly, a Federal agency other than the Department of the Treasury may not issue, sell, or guarantee an obligation of a type that is ordinarily financed in investment securities markets, as determined by the Secretary of the Treasury, unless the terms of the obligation provide that it may not be held by a person or entity other than the Federal Financing Bank or another Federal agency.”
Program Regulatory Requirements

- One hundred percent Guarantee by the Secretary of the Treasury for bonds or notes, including principal, interest, and call premiums.
- Minimum Bond Issue of $100 million; minimum Bond Loan of $10 million.
- Annual program-wide limit of $1 billion.
  - $500 million authorized in FY2013, $325 million guaranteed
  - $750 million authorized in FY2014, $200 million guaranteed
  - $750 million authorized in FY2015, $327 million guaranteed
  - $750 million authorized in FY2016; $265 million guaranteed
  - $500 million authorized in FY2017; $245 million guaranteed
  - $500 million authorized in FY2018; $150 million guaranteed
- Bond maturity terms not to exceed 29.5 years.
General Recourse-Secured Financial Structure

Diagram:

- Department of the Treasury/CDFI Fund
- Federal Financing Bank
- Master Servicer/Trustee
- Qualified Issuer
  - Program Admin
  - Servicer
- Escrow Agent
- Eligible CDFIs
- Secondary Borrowers

Key agreements:
- Program Financing Agreement
- Agreement to Guarantee
- Bond Purchase Agreement
- Bond Trust Indenture
- Bond Loan Agreement
- Promissory Notes
- Escrow Agreement
- Secondary Loan Agreement(s)
Key Financial Structure Terms

• **Bond Issue**: Aggregate principal amount of Bonds covered by a single Guarantee. Guarantee provided by the Secretary of the Treasury to the FFB. Minimum amount of $100 million and maximum amount of $1 billion.

• **Bond**: Issued by a Qualified Issuer and purchased by the FFB.

• **Bond Loan**: On Bond Issue Date, the Qualified Issuer will use 100 percent of Bond Proceeds to make Bond Loans to Eligible CDFIs. Bond Loan must be a minimum amount of $10 million (but not immediately disbursed).

• **Secondary Loan**: Financed or Refinanced by the Eligible CDFI to a Secondary Borrower.
Key Players, Roles and Responsibilities

- **Secretary of the Treasury**: Provides Guarantees on Bonds issued by the Qualified Issuer. The CDFI Fund administers the CDFI Bond Guarantee Program, which includes but is not limited to monitoring the Qualified Issuers and Eligible CDFIs to ensure compliance with program requirements.

- **Federal Financing Bank**: Purchases Bonds from the Qualified Issuer and disburses funds to Eligible CDFIs through accounts held by the Master Servicer/Trustee.

- **Master Servicer/Trustee**: Collects repayments, disburses funds, and manages trust accounts under the CDFI Bond Guarantee Program.
Key Players, Roles and Responsibilities, cont.

- **Qualified Issuer:** Structures Bond Issues and performs the roles of Program Administrator and Servicer. Responsibilities include, but are not limited to, receiving and approving loan commitments and collecting Secondary Loan data from Eligible CDFIs.

- **Escrow Agent:** Maintains escrow accounts and remits funds to the Master Servicer/Trustee and Eligible CDFI, as instructed by the Qualified Issuers.

- **Eligible CDFI:** Finances or Refinances Secondary Loans for Eligible Community and Economic Development Purposes, and monitors Bond Loan Collateral performance.

- **Secondary Borrower:** Receives Secondary Loans from Eligible CDFIs for Eligible Community and Economic Development Purposes.
Primary legal agreements which must be in place for the term of the Bond Issue include:

- **Agreement to Guarantee**: signed by the Qualified Issuer and the Secretary of the Treasury/CDFI Fund (with a Term Sheet signed by each Eligible CDFI);
- **Bond Loan Agreement**: signed by the Qualified Issuer and each Eligible CDFI; and
- **Bond Trust Indenture**: signed by the Qualified Issuer and the Master Servicer/Trustee.

- **Collateral Assignment of Loan Documents, Mortgages, and Security Agreements**: Assignment of the Secondary Loan Collateral and related documents from the Eligible CDFI to the Qualified Issuer; further assigned to the Master Servicer/Trustee.

There are at least 43 discrete legal documents required to close a Bond Issue. They dictate the structure of the Bond Issue and Bond Loans under the CDFI Bond Guarantee Program, as well as the required duties of each party.
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• Program Requirements, Structure(s), and Participants – Day 1 Recap
• Case Study 1 – General Recourse-Secured Structure
• Case Study 2 – CDFI-Financing Entity Structure (Home Mortgages)
• Case Study 3 – Alternative Financing Structure
• Term Sheet – General Recourse and Alternative Financial Structure
• Financing in Rural Communities and the Rural Infrastructure Lending Class
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  – Deal Structuring
• Requisition Process
• Questions & Answers and Closing Remarks
Case Studies Introduction

The three case studies will cover the structures and key requirements of the structures, per Federal Credit requirements and CDFI Bond Guarantee Program regulations.

- **Case Study 1**: General Recourse Secured Structure; Multi-Party Applications with Principal Loss Collateral Provision (PLCP)
- **Case Study 2**: CDFI-Financing Entity Structure (used to originate Single Family Home Mortgage Loans)
- **Case Study 3**: Alternative Financing Structure
Case Study Overview

• **Case Study 1: General Recourse Structure**
  - As of FYE 2018, 23 of 26 borrowers have utilized the General Recourse structure with Secondary Loans to asset classes besides the CDFI-Financing Entity.

• **Case Study 2: General Recourse Structure with CDFI-Financing Entity Asset Class**
  - To date, four ECDFI borrowers have utilized the CDFI-Financing Entity structure to originate and/or purchase residential mortgages and pledge them as Tertiary Loans in the Owner Occupied Homes Secondary Loan asset class, and one ECDFI borrower has utilized the CDFI-Financing Entity asset class to originate small business loans.

• **Case Study 3: Alternative Financing Structure**
  - To date, no ECDFI borrowers have utilized the Alternative Financing Structure, but it is a useful way to structure off-balance sheet financing.
Bond Issue Case Study 1: Global Reinvestments QI (GRQ)

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
GRQ utilizes guidance instructions in the Qualified Issuer and Guarantee Applications to complete the applications.

- Application materials include relevant instructions on how an application must be submitted to the CDFI Fund and can serve as a helpful reference.

GRQ submits its complete Qualified Issuer Application and Guarantee Application simultaneously.

- Submission of a complete and comprehensive application will expedite the application review process, whereas missing or unclear documentation will likely delay the review and approval process.

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Qualified Issuer:  **Global Reinvestments, Inc. (GRQ)**

**CDFI (1): Community Help CDFI**
Community Help CDFI has a national market area and focuses its lending activities in community facilities, specifically housing and community health centers. The CDFI has long history with GRQ as one of its primary capital sources.

**CDFI (2): First Community Housing CDFI**
First Community Housing has a regional market area located in the Northwest states and concentrates its lending activities to other CDFIs. FCH has not previously worked with the Qualified Issuer, GRQ, but has financed CDFIs that maintain a strong lending relationship with the QI. FCH has negotiated a Credit Enhancement (PLCP) with The Harper Foundation.

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Bond Issue Case Study 1: Capital Distribution Plan and Secondary Capital Distribution Plan

CDFI 1: Community Help CDFI $50,000,000
Secondary Loans: Asset Class

- W. Whitman Family Housing Rental Housing $15,000,000
- Hemingway Health Center Healthcare Facilities $15,000,000
- Washington Apartments Rental Housing $20,000,000

CDFI 2: First Community Housing CDFI $50,000,000
Secondary Loan:

- Helping Hands CDFI CDFI-CDFI $50,000,000

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Bond Issue Case Study 1: Capital Distribution Plan

• Required information in the Capital Distribution Plan includes:
  – Dates of disbursements;
  – Amounts of disbursements;
  – Term of disbursements;
  – Amortization schedule for each disbursement.

• The Capital Distribution Plan must demonstrate that 100% of the Bond Proceeds will be used for Eligible Purposes.

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GRQ’s Cash Flow Model is structured with the following assumptions:

- Bond Term of 15 years.
- GRQ will execute 2 Bond Loans.
- Each Bond Loan is $50 million.
- GRQ has negotiated a fee schedule with each Eligible CDFI.

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Bond Issue Case Study 1:
Fee Schedule

<table>
<thead>
<tr>
<th>Fee Type</th>
<th>Calculation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Administrative Fee</td>
<td>10 bps</td>
<td>Determined by statute</td>
</tr>
<tr>
<td>Bond Issuance Fee</td>
<td>12.5 bps</td>
<td>Negotiated by the Qualified Issuer and Eligible CDFIs</td>
</tr>
<tr>
<td>Servicer Fee*</td>
<td>25 bps</td>
<td>Negotiated by the Qualified Issuer and Eligible CDFIs</td>
</tr>
<tr>
<td>Program Administrative Fee*</td>
<td>12.5 bps</td>
<td>Negotiated by the Qualified Issuer and Eligible CDFIs</td>
</tr>
<tr>
<td>Master Servicer/Trustee Fee</td>
<td>25 bps</td>
<td>Negotiated by the Master Servicer/Trustee</td>
</tr>
<tr>
<td>Underlying Bond Rate + Liquidity Premium – 15 year term</td>
<td>3.00%</td>
<td>Determined by the Federal Financing Bank</td>
</tr>
<tr>
<td>Spread for Prepayment after Five Years</td>
<td>43.2 bps</td>
<td>Determined by the Federal Financing Bank</td>
</tr>
<tr>
<td>Eligible CDFI Interest Rate to Secondary Borrowers</td>
<td>4.3% to 6.75%</td>
<td>Determined by the Eligible CDFI</td>
</tr>
</tbody>
</table>

* Third party fees likely higher

**RSP is not calculated as a part of the rate for the Eligible CDFI

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# Bond Issue Case Study 1:
Pricing Structure – Sample FFB Rates

## Approximate Federal Financing Bank Loan Rates

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Years to 1st Call</th>
<th>Option Spread</th>
<th>Treasury Yield</th>
<th>FFB Yield Est. (excludes Liquidity Premium)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>20</td>
<td>0.065</td>
<td>2.714</td>
<td>2.779</td>
</tr>
<tr>
<td>30</td>
<td>15</td>
<td>0.154</td>
<td>2.714</td>
<td>2.868</td>
</tr>
<tr>
<td>20</td>
<td>15</td>
<td>0.034</td>
<td>2.488</td>
<td>2.522</td>
</tr>
<tr>
<td>10</td>
<td>N/A</td>
<td>N/A</td>
<td>2.192</td>
<td>2.192</td>
</tr>
</tbody>
</table>

Loan Issue Date: 10/30/2017  Yield Curve Date: 10/27/2017
Semiannual Amortizing Loans Callable at Par (except N/A case)
The Eligible CDFI’s interest rates for its Secondary Loans are calculated by the Eligible CDFI and may be a function of:

– Underlying Bond rate and liquidity premium;
– Fees paid to Bond Loan participants;
– Other costs of the CDFI Bond Guarantee Program;
– Eligible CDFI’s interest spread; and/or
– Credit risk evaluation by the Eligible CDFI.

Within this Bond Issue, the Eligible CDFIs propose to lend Secondary Loans at interest rates of 4.3% to 6.75% to Secondary Borrowers.

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Consistent with GRQ’s Capital Distribution Plan, the Secondary Capital Distribution Plan will require the Eligible CDFIs (First Community Housing CDFI and Community Help CDFI) to provide specific detail in the timing of disbursements of the Bond Loan, including:

- Date and amount;
- Term;
- Amortization schedule;
- Estimated interest rate, fees

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The Eligible CDFIs must present the **Asset Classes proposed for Secondary Loans** currently allowed within the CDFI Bond Guarantee Program.

- Community Help CDFI proposes to lend to the following Asset Classes:
  - Healthcare Facilities
  - Rental Housing

- First Community Housing CDFI proposes to lend to:
  - Commercial Real Estate

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## Bond Issue Case Study 1: Secondary Capital Distribution Plan

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<table>
<thead>
<tr>
<th>Secondary Borrower</th>
<th>Secondary Loan Amount</th>
<th>Interest Rate</th>
<th>Project Month of Disbursement</th>
<th>Loan Term (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>W. Whitman Family Housing</td>
<td>$15,000,000</td>
<td>6.75%</td>
<td>1</td>
<td>180</td>
</tr>
<tr>
<td>Hemingway Health Care Center</td>
<td>$15,000,000</td>
<td>6.75%</td>
<td>6</td>
<td>120</td>
</tr>
<tr>
<td>Washington Apartments</td>
<td>$20,000,000</td>
<td>6.75%</td>
<td>12</td>
<td>120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$50,000,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Community Help CDFI’s Secondary Capital Distribution Plan indicates that the CDFI will rely on overcollateralization rather than the relending account.

CDFIs may overcollateralize the Bond Loan to avoid relending account activity as a result of the uneven amortization periods between Secondary Loans and the Bond Loan.

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The overcollateralization chart shown on the next slide is a simplified example that is not reflective of the loan balances within the case study.

The example assumes a 110% overcollateralization requirement.

The blue highlighted portion of the chart reflects additional collateral pledged by the Eligible CDFI (other pledged loans).

As long as the total value of the Secondary Loans’ unpaid principal balance (UPB) is sufficient to comply with the overcollateralization requirement, the Relending Account may be zero (and unfunded).

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## Bond Issue Case Study 1:
### Overcollateralization Example

<table>
<thead>
<tr>
<th>($) (000)</th>
<th>Period</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary Loan UPB 1</td>
<td>500</td>
<td>430</td>
<td>360</td>
<td>290</td>
<td>220</td>
<td>150</td>
<td>80</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Secondary Loan UPB 2</td>
<td>500</td>
<td>430</td>
<td>360</td>
<td>290</td>
<td>220</td>
<td>150</td>
<td>80</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Secondary Loan UPB 3</td>
<td>100</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Secondary Loan UPB 4</td>
<td>160</td>
<td>100</td>
<td>40</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Secondary Loan UPB 5</td>
<td>90</td>
<td>60</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
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</tr>
<tr>
<td>Secondary Loan UPB 6</td>
<td>120</td>
<td>70</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary Loan UPB 7</td>
<td>150</td>
<td>100</td>
<td>50</td>
<td>0</td>
<td>0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary Loan UPB 8</td>
<td>160</td>
<td>110</td>
<td>60</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Secondary Loan UPB 9</td>
<td>150</td>
<td>100</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Secondary Loan UPB 10</td>
<td>60</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Secondary Loan UPB 11</td>
<td>20</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL Secondary Loan UPBs</td>
<td>1100</td>
<td>910</td>
<td>880</td>
<td>770</td>
<td>660</td>
<td>550</td>
<td>440</td>
<td>330</td>
<td>220</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Bond Loan UPB</td>
<td>1000</td>
<td>900</td>
<td>800</td>
<td>700</td>
<td>600</td>
<td>500</td>
<td>400</td>
<td>300</td>
<td>200</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Secondary UPB/ Bond Loan</td>
<td>110.0%</td>
<td>101.1%</td>
<td>110.0%</td>
<td>110.0%</td>
<td>110.0%</td>
<td>110.0%</td>
<td>110.0%</td>
<td>110.0%</td>
<td>110.0%</td>
<td>110.0%</td>
<td></td>
</tr>
<tr>
<td>Relending Account</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
### Bond Loan 2 – First Community Housing CDFI

<table>
<thead>
<tr>
<th>Secondary Borrower</th>
<th>Secondary Loan Amount</th>
<th>Interest Rate</th>
<th>Project Month of Disbursement</th>
<th>Loan Term (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helping Hands CDFI</td>
<td>$50,000,000</td>
<td>4.3%</td>
<td>1</td>
<td>180</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$50,000,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Tertiary Loans*

<table>
<thead>
<tr>
<th>Secondary Borrower</th>
<th>Secondary Loan Amount</th>
<th>Interest Rate</th>
<th>Project Month of Disbursement</th>
<th>Loan Term (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Reach Bank</td>
<td>$25,000,000</td>
<td>4.5%</td>
<td>1</td>
<td>180</td>
</tr>
<tr>
<td>Patriot CDFI Credit Union</td>
<td>$25,000,000</td>
<td>4.5%</td>
<td>1</td>
<td>180</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$50,000,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Eligible use met by CDFI-to-CDFI Lending

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
First Community Housing CDFI proposes to generate one Secondary Loan to Helping Hands CDFI.

The Asset Class is CDFI-to-CDFI Lending.

Helping Hands CDFI will on-lend to two regulated CDFIs
- Capital Reach Bank - $25,000,000
- Patriot CDFI Credit Union - $25,000,000

Helping Hands has negotiated a Credit Enhancement with the Harper Foundation in the form of a PLCP to support the Secondary Capital Distribution Plan.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
First Community Housing CDFI proposes to use a Credit Enhancement of $50 Million (structured as a PLCP) to support the Bond structure at the Eligible CDFI level.

– Helping Hands CDFI is proposing to lend within the CDFI-to-CDFI asset class.
– Tertiary lending is in the form of secondary capital and Tier 1 capital to regulated entities providing no collateral.
– Helping Hands CDFI is substituting collateral with the $50 Million PLCP.
## Bond Issue Case Study 1: Summary

**Bond Issue Case Study Overview**

<table>
<thead>
<tr>
<th>Bond Issue: $100 Million</th>
<th>Qualified Issuer: GRQ</th>
<th>Bond Term: 15 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Community Help CDFI: $50,000,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary Loans:</td>
<td>Asset Class</td>
<td>Loan Amount</td>
</tr>
<tr>
<td>W. Whitman Family Housing</td>
<td>Rental Housing</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>Hemingway Health Care Center</td>
<td>Health Care Facilities</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>Washington Apartments</td>
<td>Rental Housing</td>
<td>$20,000,000</td>
</tr>
<tr>
<td><strong>First Community Housing CDFI: $50,000,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary Loans:</td>
<td>Asset Class</td>
<td>Loan Amount</td>
</tr>
<tr>
<td>Helping Hands CDFI</td>
<td>CDFI/CDFI</td>
<td>$50,000,000</td>
</tr>
<tr>
<td><strong>On-Lending:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Reach Bank</td>
<td>Tier 1 Capital</td>
<td>$25,000,000</td>
</tr>
<tr>
<td>Patriots Credit Union</td>
<td>Secondary Capital</td>
<td>$25,000,000</td>
</tr>
</tbody>
</table>

*The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.*
As a part of the case study, sample cash flows were developed to replicate those to be included in a Guarantee Application.

The following slides present snapshot views of the various accounts which are impacted by transactions and activities within the Bond Issue, including:

- Draws under the Bond Loans;
- Repayments of the Secondary Loans;
- Funding of the Risk-Share Pool

The first account examined is First Community Housing CDFI, which executes a $50,000,000 draw under the Bond Loan.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
The cash flows associated with First Community Housing present a straightforward view of how accounts and payments vary over time with concurrent maturities and level amortization schedules.

The following table displays the accounts of First Community Housing CDFI, which draws $50,000,000 under the Bond Loan, at the end of month one.
## Bond Issue Case Study 1:
Cash Flows – First Community Housing

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Month 1 (Year 1)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Loan UPB (End)</td>
<td>$49,770,772</td>
<td></td>
</tr>
<tr>
<td>Bond Loan Principal Payment</td>
<td>$229,228</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Bond Loan Interest Payment</td>
<td>$104,167</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Secondary Loan UPB (End)</td>
<td>$49,801,761</td>
<td></td>
</tr>
<tr>
<td>Secondary Loan Principal Payment</td>
<td>$198,239</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Secondary Loan Interest Payment</td>
<td>$179,167</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$35,417</td>
<td>Based on UPB of Bond Loan</td>
</tr>
<tr>
<td>Eligible CDFI Spread</td>
<td>$8,594</td>
<td>Remainder after fees and Bond Loan payment</td>
</tr>
</tbody>
</table>

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
The following table compares the value of the various accounts at the end of month one and at the end of the 15-year term.

- Unpaid principal balances of the Bond Loan and Secondary Loans decrease over time.
- Principal payments on the Bond Loan and Secondary Loans increase over time.
- Interest payments on the Bond Loan and Secondary Loans decrease over time.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
## Bond Issue Case Study 1:
### Cash Flows – First Community Housing

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Month 1 (Year 1)</th>
<th>Month 180 (Year 15)</th>
<th>Account Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Loan UPB (End)</td>
<td>$49,770,772</td>
<td>$0</td>
<td>Decrease</td>
</tr>
<tr>
<td>Bond Loan Principal Payment</td>
<td>$229,228</td>
<td>$334,701</td>
<td>Increase</td>
</tr>
<tr>
<td>Bond Loan Interest Payment</td>
<td>$104,167</td>
<td>$693</td>
<td>Decrease</td>
</tr>
<tr>
<td>Secondary Loan UPB (End)</td>
<td>$49,801,761</td>
<td>$0</td>
<td>Decrease</td>
</tr>
<tr>
<td>Secondary Loan Principal Payment</td>
<td>$198,239</td>
<td>$376,058</td>
<td>Increase</td>
</tr>
<tr>
<td>Secondary Loan Interest Payment</td>
<td>$179,167</td>
<td>$1,348</td>
<td>Decrease</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$35,417</td>
<td>$236</td>
<td>Decrease</td>
</tr>
<tr>
<td>Eligible CDFI Spread</td>
<td>$8,594</td>
<td>$41,766</td>
<td>Increase</td>
</tr>
</tbody>
</table>

*The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.*
Due to the Secondary Loan having the same maturity as the Bond Loan, no additional funds will be necessary in the Relending Account.

Fees decrease over time with the decrease in Bond Loan UPB.

As fees decrease and Secondary Loan repayments continue to occur on a level payment basis, the Eligible CDFI’s spread is expected to increase over time.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
The Bond Loan to Community Help CDFI is also $50,000,000, with staggered disbursements associated with three Secondary Loans.

This example demonstrates multiple draws under a single Bond Loan for the Secondary Loans and assumes a required overcollateralization of 105%.

The following tables demonstrate the cash flows associated with the various accounts of Community Help CDFI at the end of month one.
**Bond Issue Case Study 1:**
**Cash Flows – Community Help**

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Month 1 (Year 1)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Loan UPB (End)</td>
<td>$14,931,232</td>
<td></td>
</tr>
<tr>
<td>Bond Loan Principal Payment</td>
<td>$68,768</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Bond Loan Interest Payment</td>
<td>$31,250</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Secondary Loan UPB (End)</td>
<td>$15,773,979</td>
<td></td>
</tr>
<tr>
<td>Secondary Loan Principal Payment</td>
<td>$51,021</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Secondary Loan Interest Payment</td>
<td>$89,016</td>
<td>Based on level monthly amortization</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$27,813</td>
<td>Based on UPB of Bond Loan</td>
</tr>
<tr>
<td>Eligible CDFI Spread</td>
<td>$12,205</td>
<td>Remainder after fees and Bond Loan payment</td>
</tr>
<tr>
<td>Overcollateralization (SL/BL)</td>
<td>105.5%</td>
<td>Passes the 105% requirement</td>
</tr>
</tbody>
</table>

*The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.*
The following table reflects Community Help CDFI’s staggered disbursement of Bond proceeds with varying Secondary Loan terms at the end of month one.

As Bond proceeds are disbursed over time:

– Bond Loan and Secondary Loan UPBs increase;

– Bond Loan and Secondary Loan principal and interest payments may increase, depending on the incremental amount of disbursements; and

– Fees and the Eligible CDFI’s spread increases as the amount disbursed increases.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
# Bond Issue Case Study 1:
## Cash Flows – Community Help

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Month 1 (Year 1)</th>
<th>Month 12 (Year 1)</th>
<th>Account Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Loan UPB (End)</td>
<td>$14,931,232</td>
<td>$48,565,409</td>
<td>Increase</td>
</tr>
<tr>
<td>Bond Loan Principal Payment</td>
<td>$68,768</td>
<td>$241,231</td>
<td>Increase</td>
</tr>
<tr>
<td>Bond Loan Interest Payment</td>
<td>$31,250</td>
<td>$101,681</td>
<td>Increase</td>
</tr>
<tr>
<td>Secondary Loan UPB (End)</td>
<td>$15,773,979</td>
<td>$51,140,309</td>
<td>Increase</td>
</tr>
<tr>
<td>Secondary Loan Principal Payment</td>
<td>$51,021</td>
<td>$272,688</td>
<td>Increase</td>
</tr>
<tr>
<td>Secondary Loan Interest Payment</td>
<td>$89,016</td>
<td>$289,198</td>
<td>Increase</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$27,813</td>
<td>$90,048</td>
<td>Increase</td>
</tr>
<tr>
<td>Eligible CDFI Spread</td>
<td>$10,676</td>
<td>$128,927</td>
<td>Increase</td>
</tr>
</tbody>
</table>

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
The following table shows Community Help cash flows from full disbursement of Bond proceeds to repayment of non-full term Secondary Loans.

- Bond Loan and Secondary Loan UPB decrease over time.
- Bond Loan and Secondary Loan principal payments increase over time.
- Bond Loan and Secondary Loan interest payments decrease over time.

Because shorter Secondary Loan payments do not match with longer Bond Loan fees and payments, the Eligible CDFI’s spread decreases from full disbursement of Bond proceeds to the repayment of non-full term Secondary Loans.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
## Bond Issue Case Study 1: 
**Cash Flows – Community Help**

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Month 12 (Year 1)</th>
<th>Month 132 (Year 11)</th>
<th>Account Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Loan UPB (End)</td>
<td>$48,565,409</td>
<td>$15,648,044</td>
<td>Decrease</td>
</tr>
<tr>
<td>Bond Loan Principal Payment</td>
<td>$241,231</td>
<td>$309,667</td>
<td>Increase</td>
</tr>
<tr>
<td>Bond Loan Interest Payment</td>
<td>$101,681</td>
<td>$33,245</td>
<td>Decrease</td>
</tr>
<tr>
<td>Secondary Loan UPB (End)</td>
<td>$51,140,309</td>
<td>$16,489,002</td>
<td>Decrease</td>
</tr>
<tr>
<td>Secondary Loan Principal Payment</td>
<td>$272,688</td>
<td>$298,510</td>
<td>Increase</td>
</tr>
<tr>
<td>Secondary Loan Interest Payment</td>
<td>$289,198</td>
<td>$94,430</td>
<td>Decrease</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$90,048</td>
<td>$29,588</td>
<td>Decrease</td>
</tr>
<tr>
<td>Eligible CDFI Spread</td>
<td>$128,927</td>
<td>$20,440</td>
<td>Decrease</td>
</tr>
</tbody>
</table>

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
Bond Issue Case Study 1:
Cash Flows – Community Help

- Once all remaining Secondary Loans have terms which coincide with the end of the Bond Loan, changes in balances will reflect those of First Community Housing CDFI.
  - Bond Loan and Secondary Loan UPB decrease over time.
  - Bond Loan and Secondary Loan principal payments increase over time.
  - Bond Loan and Secondary Loan interest payments decrease over time.
  - The Eligible CDFI’s spread will increase, due to decreasing UPB and fees on the Bond Loan.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
**Bond Issue Case Study 1: Cash Flows – Community Help**

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Month 132 (Year 11)</th>
<th>Month 180 (Year 15)</th>
<th>Account Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Loan UPB (End)</td>
<td>$15,648,044</td>
<td>$0</td>
<td>Decrease</td>
</tr>
<tr>
<td>Bond Loan Principal Payment</td>
<td>$309,667</td>
<td>$342,199</td>
<td>Increase</td>
</tr>
<tr>
<td>Bond Loan Interest Payment</td>
<td>$33,245</td>
<td>$713</td>
<td>Decrease</td>
</tr>
<tr>
<td>Secondary Loan UPB (End)</td>
<td>$16,489,002</td>
<td>$0</td>
<td>Decrease</td>
</tr>
<tr>
<td>Secondary Loan Principal Payment</td>
<td>$298,510</td>
<td>$371,428</td>
<td>Increase</td>
</tr>
<tr>
<td>Secondary Loan Interest Payment</td>
<td>$94,430</td>
<td>$2,089</td>
<td>Decrease</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$29,588</td>
<td>$634</td>
<td>Decrease</td>
</tr>
<tr>
<td>Eligible CDFI Spread</td>
<td>$20,440</td>
<td>$29,971</td>
<td>Increase</td>
</tr>
</tbody>
</table>

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
### Bond Issue Case Study 1: Risk-Share Pool

- As the Bond is repaid with on-time, full payments, the Risk-Share Pool as a percentage of the Bond UPB will increase over time.

<table>
<thead>
<tr>
<th>Month</th>
<th>Bond UPB</th>
<th>Expected Risk-Share Pool Amount</th>
<th>Risk-Share Pool as a Percentage of Bond (Beginning of Period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$65,000,000</td>
<td>$1,950,000</td>
<td>3.00%</td>
</tr>
<tr>
<td>6</td>
<td>$78,272,172</td>
<td>$2,400,000</td>
<td>3.07%</td>
</tr>
<tr>
<td>12</td>
<td>$96,258,703</td>
<td>$3,000,000</td>
<td>3.12%</td>
</tr>
<tr>
<td>126</td>
<td>$35,110,391</td>
<td>$3,000,000</td>
<td>8.54%</td>
</tr>
<tr>
<td>132</td>
<td>$31,472,531</td>
<td>$3,000,000</td>
<td>9.53%</td>
</tr>
<tr>
<td>180</td>
<td>$674,900</td>
<td>$3,000,000</td>
<td>444.51%</td>
</tr>
</tbody>
</table>

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
As determined by Statute, Eligible CDFIs are responsible to fund the Risk-Share Pool.

- The Risk-Share Pool is funded at 3% of the amount requested to be drawn under the Bond Loan.
- The Risk-Share Pool is funded pro-rata upon the draw under the Bond Loan.
- The Risk-Share Pool may not be funded from Bond proceeds, the Qualified Issuer, or funding from other CDFI Fund programs.
- The Risk-Share Pool must remain in place throughout the term of the Bond Issuance.

The figures and organizations in this chart are provided for example purposes only and do not represent those of a particular Bond Issue; parties are fictitious.
15 Minute Break
Agenda

- Introduction and Overview
- Program Requirements, Structure(s), and Participants – Day 1 Recap
- Case Study 1 – General Recourse-Secured Structure
- **Case Study 2 – CDFI-Financing Entity Structure (Home Mortgages)**
- Case Study 3 – Alternative Financing Structure
- Term Sheet – General Recourse and Alternative Financial Structure
- Financing in Rural Communities and the Rural Infrastructure Lending Class
- Qualified Issuer Discussion Panels
  - QI Application Process
  - Evaluation and Guarantee Application Process
  - Deal Structuring
- Requisition Process
- Questions & Answers and Closing Remarks
For the CDFI-to-Financing Entity Asset Class, financing entities may include Approved Financing Entities (AFE), which are wholly-owned, managed, and controlled subsidiaries of an ECDFI for the sole purpose of financing, refinancing, and/or acquiring and pledging tertiary loans as collateral for Secondary Loans from the Eligible ECDFI.

**Background:**

- The BG Program requires that the principal and interest payments from the Secondary Loans flow directly to the approved Escrow Agent.
- Historically, this requirement has created challenges for some ECDFIs that originate home mortgage loans.
- CDFIs typically receive principal, interest, taxes and insurance (PITI) payments from their borrowers in total. Transferring the assignment of the full PITI payment to an Escrow Agent may create difficulties for the payment of insurance and taxes from these cash flows.
- Additionally, the general terms of the bond include a 29.5 year maturity date, which would preclude any new standard 30 year fixed mortgages from being originated and pledged post closing of the bond loan.
Use of the CDFI-Financing Entity for Single Family Mortgage Loans

- Utilizing the CDFI-to-Financing Entity asset class helps to resolve this issue by allowing payments from the underlying mortgage borrowers to be used to make principal and interest payments on the Secondary Loans after segregating payments for taxes and insurance.
- Although the secondary loan is governed by the 29.5 year maturity limit of the bond loan, the underlying tertiary owner-occupied mortgage loans may exceed this limit.
- The owner-occupied mortgage loans are assigned to the Financing Entity
- Payments from the underlying mortgages to the Financing Entity are used to make payments on the Secondary Loans from the ECDFI.
• **Approved Financing Entity (AFE)** – wholly owned, managed, and controlled subsidiary of the ECDFI borrower, created exclusively for the purposes of financing, refinancing, and/or acquiring and pledging Tertiary Loans.

• **AFE Collateral Assignment** – Assignment of mortgages, loan documents, and security agreements by the AFE for the benefit of the ECDFI borrower. These must be dated prior or concurrently to the Secondary Loans.

• **Tertiary Borrowers** – Receive **Tertiary Loans** from Secondary Borrower (Approved Financing Entity). These loans (typically mortgage loans) are pledged and assigned to the ECDFI borrower as collateral for the Secondary Loan. The payments from the Tertiary Loans are utilized to finance the payments of the principal and interest on the Secondary Loans from the ECDFI.
Bond Issue Case Study 2: CDFI-Financing Entity
Other requirements for using CDFI-Financing Entity asset class

- Tertiary Loans must fall within an approved Asset Class and conform to the Secondary Loan Requirements
  - Exception: Tertiary Loans may have maturity dates that extend beyond the Bond Loan maturity date
- In terms of Secondary Loan requirements related to Loan-to-value (LTV) for CDFI-Financing Entity Secondary Loans, the LTV ratio shall be calculated:
  - a) on a “pooled” basis at 80% or less (125% overcollateralization); or
  - b) on a per-loan basis in accordance with general LTV requirements for Secondary Loan Collateral.*
- The ECDFI must demonstrate experience providing loans to financing entities and to the underlying proposed Tertiary Loan Asset Class(es).
- The ECDFI and AFE must establish a board-approved operating or management agreement that covers all necessary functions for originating and monitoring Tertiary Loans.
- The Financing Entity must establish board approved loan policies and procedures prior to the approval and receipt of any advances on the Bond Loans.
- Amortization of the Tertiary Loan is at the discretion of the ECDFI.

*Note: Utilizing the FE to originate Secondary Loans in Owner-Occupied Housing and other Secondary Loan Asset Classes requires special
Affordable Housing Partners CDFI (AHP CDFI) originates single family mortgages to low-income populations in the Midwest and reports a mortgage loan portfolio of $247 million.

AHP CDFI applies to the BG Program for $100 million in Bond Loans to originate one $101 million Secondary Loan to a newly created affiliate (Affordable Mortgages Financing Entity, AMFE).

AMFE utilizes the Secondary Loan funds and $25.25 million in additional capital (provided by the parent CDFI) to purchase $126.25 million in mortgage loans (Owner-Occupied Homes asset class) from AHP CDFI.

The Unpaid Principal Balance (UPB) should be at least 125% of the UPB for Secondary Loans.

AMFE assigns the collateral to AHP CDFI and utilizes the cash flows from the mortgages to make regular payments on the Secondary Loan from AHP CDFI.
AFE Structure – Sample Agreements and Cash Flows

Legend:
- MBP&I – Principal & Interest from all Mortgage Borrowers
- R – Reserve Deposits (Taxes, Insurance, Capital Reserve, etc.)
- BLP – Bond Loan Payments (Includes Bond P&I and Fees/Expenses)
Agenda

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  – Deal Structuring
• Requisition Process
• Questions & Answers and Closing Remarks
Purpose of the AFS

- The AFS is an Affiliate of a Controlling CDFI(s) that is created for the sole purpose of participation as an Eligible CDFI in the CDFI Bond Guarantee Program.
- With the AFS, the Affiliate (as the Eligible CDFI) provides a general full recourse obligation to repay the Bond Loan and the Bond Loan is on its balance sheet.
- The Controlling CDFI(s), under the AFS, will have limited financial recourse to repay the Bond Loan and the Bond Loan is unlikely to be a liability on the balance sheet of the Controlling CDFI(s).
- The AFS is expected to increase demand for the CDFI Bond Guarantee Program by providing the Controlling CDFI(s) with the ability to participate in the CDFI Bond Program without breaching existing covenants with unsecured, short-term, general recourse lenders.
General Recourse Secured Structure
Alternative Financial Structure

The requirement of an Escrow Agent for the AFS is under review.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
AFS Key Financial Structure Terms

- **Bond Issue**: Aggregate principal amount of Bonds covered by a single Guarantee. Guarantee provided by the Secretary of the Treasury to the FFB. Minimum amount of $100 million and maximum amount of $1 billion.

- **Bond**: Issued by a Qualified Issuer and purchased by the FFB.

- **Bond Loan**: On Bond Issue Date, the Qualified Issuer will use 100 percent of Bond Proceeds to make Bond Loans to the AFS. Bond Loan must be a minimum amount of $10 million (but not immediately disbursed).

- **Secondary Loan**: Financed or Refinanced by the AFS to a Secondary Borrower.
AFS Key Players, Roles, and Responsibilities

• **Secretary of the Treasury:** Provides Guarantees on Bonds issued by the Qualified Issuer. The CDFI Fund administers the CDFI Bond Guarantee Program, which includes but is not limited to monitoring the Qualified Issuers and the AFS to ensure compliance with program requirements.

• **Federal Financing Bank:** Purchases Bonds from the Qualified Issuer and disburses funds to the AFS through accounts held by the Master Servicer/Trustee.

• **Master Servicer/Trustee:** Collects repayments, disburses funds, and manages trust accounts under the CDFI Bond Guarantee Program.

• **Qualified Issuer:** Structures Bond Issues and performs the roles of Program Administrator and Servicer. Responsibilities include, but are not limited to, receiving and approving loan commitments and collecting Secondary Loan data from the AFS.
AFS Key Players, Roles, and Responsibilities, cont.

- **Escrow Agent**: Maintains escrow accounts and remits funds to the Master Servicer/Trustee and AFS, as instructed by the Qualified Issuers. The requirement of the Escrow Agent for the AFS is under review.

- **Controlling CDFI(s)**: May operate, own, and manage the AFS under an Operating Agreement. Provides initial cash equity and loan receivables for the AFS. Must be a Certified CDFI and have 10% or more financial interest in the AFS.

- **Alternative Financial Structure (Eligible CDFI)**: Borrows Bond Loan proceeds to finance the purchase of seasoned and performing Secondary Loan Receivables from the Controlling CDFI(s).

- **Secondary Borrower**: Receives Secondary Loans from the AFS for Eligible Community and Economic Development Purposes.
Three primary legal agreements which must be in place for the term of the Bond Issue include:

- **Agreement to Guarantee**: signed by the Qualified Issuer and the Secretary of the Treasury/CDFI Fund (with a Term Sheet signed by the AFS);
- **Bond Loan Agreement**: signed by the Qualified Issuer and the AFS; and
- **Bond Trust Indenture**: signed by the Qualified Issuer and the Master Servicer/Trustee.

These documents and other supplemental agreements dictate the necessary structure of the Bond Issue and Bond Loans under the CDFI Bond Guarantee Program, as well as the required duties of each party.

- The AFS will be required to have an **Operating Agreement** with the Controlling CDFI(s).
Additional Requirements for the AFS

- AFS applications for the FY2019 CDFI Bond Guarantee Program will have additional requirements to qualify for the program including:
  - A Certification Requirement;
  - An Operating Agreement; and
  - Capital Structure Requirements.
A requirement of the CDFI Bond Guarantee Program is that Eligible Borrowers must be Certified CDFIs.

Due to its potentially limited history, the Affiliate in the AFS will have difficulty fulfilling certain CDFI certification tests based on its own track record.

The CDFI Fund, with a revision to the CDFI certification regulation, may certify an Affiliate under the AFS using certain of the Affiliate’s Controlling CDFI track record credentials.

- Controlling CDFI(s) must have 10% or more financial interest in the Affiliate.
- If there are multiple CDFIs contributing assets to the Affiliate in the AFS, each of the contributing CDFIs must be a Certified CDFI.

An Affiliate whose CDFI certification is based on the track record of a Controlling CDFI(s) is not eligible to receive financial or technical assistance awards or tax credit allocation under any other CDFI Fund programs.
There are seven CDFI certification requirements.

1. **Legal Entity**: The entity must have properly filed articles of incorporation or other organizing documents. The Affiliate must meet the legal entity requirement on its own merit.

2. **Primary Mission**: An entity must have a primary mission of promoting community development, demonstrated through incorporating documents or a board approved narrative statement. The Affiliate must meet the primary mission requirement on its own merit.

3. **Financing Entity**: An entity must demonstrate that its predominant business activity is the provision of Financial Products and Financial Services, Development Services, and/or other similar financing. Under the AFS, the Affiliate can meet the financing entity requirement based on the track record of the Controlling CDFI(s).

4. **Target Market**: An entity must serve at least one eligible Target Market (either an Investment Area or a Targeted Population) by directing at least 60% of all of its Financial Product activities to one or more eligible Target Market. Under the AFS, the Affiliate can meet the target market requirement by serving an Investment Area or Target Market through loans originated by the Controlling CDFI(s).
5. **Development Services:** An entity must provide Development Services in conjunction with its Financial Products. An Affiliate under the AFS may meet the development services requirement if the Controlling CDFI(s) provides the development services.

6. **Accountability:** An entity must maintain accountability to residents of its Investment Area or Targeted Population through representation on its governing board and/or advisory board(s), or through focus groups, community meetings, and/or customer surveys. An Affiliate may be deemed to meet this requirement only if it has a governing board and/or advisory board that has the same composition as the Controlling CDFI(s).

7. **Non-government Entity:** An entity can neither be a government entity nor be controlled by one or more governmental entities. The Affiliate must meet the non-government entity requirement on its own merit.
### AFS Certification Requirement: CDFI Certification Requirements, cont.

<table>
<thead>
<tr>
<th>CDFI Fund certification requirements</th>
<th>Relationship with Controlling CDFI</th>
<th>AFS must meet requirement on its own merit</th>
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<tr>
<td>Legal Entity</td>
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<td>Primary Mission</td>
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<td>Target Market&lt;sub&gt;1&lt;/sub&gt;</td>
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<td>Non-Governmental Entity</td>
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</table>

1 Target Market requirement is met based on: a) assets sold or transferred to the AFS from the Controlling CDFI(s) or b) indirectly or through borrowers or investees that directly serve or provide significant benefits to members of the Targeted Population, if the Controlling CDFI’s financing entity activities served the AFS’ Targeted Population.

2 Development services must be provided by the Controlling CDFI(s) in relationship to the likely transferred or sold assets to the AFS.

3 AFS must have an Advisory Board(s) with the same composition (i.e., same members) of the Controlling CDFI.
CDFI Certification applications are available on the CDFI Fund website: 

Alert the BG Program of a submission of the AFS Certification application via email, 
[bgp@cdfi.treas.gov](mailto:bgp@cdfi.treas.gov).

The deadline for CDFI Certification applications for the AFS was **November 30, 2018**.

An AFS’s CDFI Certification will terminate if:

- The AFS does not enter into Bond Loan Documents with its Qualified Issuer within 1 year of the date it signs the term sheet; or
- The AFS ceases to be an affiliate of the Controlling CDFI(s).

The CDFI Certification application must include an Operating Agreement between the AFS and Controlling CDFI(s).
The Affiliate will enter into an Operating Agreement with a Controlling CDFI(s) which is a required term in the Bond Documents.

The Operating Agreement is critical in the formation of the AFS and will be reviewed as a part of the underwriting and legal due diligence of the entity.

The Operating Agreement will explain the roles, responsibilities, and activities performed by the Controlling CDFI(s).

The ownership and management of the AFS should be separated in the Operating Agreement.

- Separation of duties within the AFS enables the Master Servicer/Trustee, on behalf of the Federal Financing Bank (FFB) as the lender, to require specific performance provisions within the management and operations of the AFS and to enforce specific remedies for non-performance in the Bond Loan Agreement.
The Controlling CDFI(s) roles, responsibilities, and activities should be outlined in the Operating Agreement. To meet the requirements for the AFS to become a Certified CDFI, the AFS must:

- Be an existing entity;
- Possess a Certificate of Good Standing; and
- Executed Articles of Organization.

The Operating Agreement included in the AFS application to become a Certified CDFI must include a description of the:

- Participants;
- Management and ownership;
- Purpose; and
- Ability of the AFS to meet the CDFI Fund Certification Requirements as outlined in the 2018 Notice of Guarantee Availability (NOGA).
Upon submission of the Guarantee Application for the AFS, the CDFI Fund will conduct due diligence and credit underwriting. During this phase, the CDFI Fund will require the Operating Agreement to be amended and restated. The amended and restated Operating Agreement requirements may include:

- Compensation arrangements;
- Term and termination provisions;
- Restrictions on transfer provisions;
- Indemnification provision;
- Default and recourse requirements;
- Record Keeping and Accounting procedures;
- Non-performance and substitution policies;
- Loan Underwriting and Origination policies;
- Human Resources and Staffing;
- Insurance; and
- General Administration.
AFS Operating Agreement: Multiple Controlling CDFIs Structure

Scenario 1
AFS Operating Agreement: Multiple Controlling CDFIs Structure

Scenario 1

• $100 million Bond Issue with 1 AFS, 1 Bond Loan* and 3 Controlling CDFIs:
  – 3 Controlling CDFIs create 1 AFS for $100 million Bond Loan* secured by $120 million in seasoned loan receivables.
  – Lead Controlling CDFI transfers/sales $72 million of seasoned loan receivables to the AFS.
  – Controlling CDFI transfers/sales $24 million of seasoned loan receivables to the AFS.
  – Controlling CDFI transfers/sales $24 million of seasoned loan receivables to the AFS.

*The $100 million Bond Loan is a liability of the AFS and the seasoned loan receivables must meet the CDFI Bond Guarantee Program Secondary Loan Requirements. The Operating Agreement governs the AFS.
AFS Operating Agreement: Multiple Controlling CDFIs Structure

Scenario 2
AFS Operating Agreement: Multiple Controlling CDFIs Structure

Scenario 2

- $100 million Bond Issue with 3 Bond Loans
  - Controlling CDFI₁ creates AFS₁ and transfers/sales $72 million of seasoned loan receivables for a $60 million Bond Loan*.
  - Controlling CDFI₂ creates AFS₂ and transfers/sales $24 million of seasoned loan receivables for a $20 million Bond Loan*.
  - Controlling CDFI₃ creates AFS₃ and transfers/sales $24 million of seasoned loan receivables for a $20 million Bond Loan*.

* Each Bond Loan is a liability of each AFS and the seasoned loan receivables must meet the CDFI Bond Guarantee Program Secondary Loan Requirements. Each Operating Agreement will govern each AFS and the Master Operating Agreement will govern each AFS within the Bond Issue.
• The AFS must meet credit underwriting requirements and be deemed creditworthy by the CDFI Bond Guarantee Program Credit and Risk Management unit.

• The capital structure of the AFS will include loan receivables, cash and other Credit Enhancements or Third Party Guarantees.

• Recourse flows to the AFS.

• The Controlling CDFI(s) have limited recourse subject to the Bond Documents.
AFS Capital Structure

- **Loans Receivable**: The AFS assets will consist of interest income generating loans receivable that are designated as the primary source of repayment for the Bond Loan.
  - Loan receivables will be considered Secondary Loans under the CDFI Bond Guarantee Program and must conform to the Secondary Loan Requirements.
  - Secondary Loans must be seasoned a minimum of 12 months and must be a performing loan. A loan is considered performing if: (i) it has no delinquencies in payment greater than 30 days over the prior 24 months or (ii) if the loan has not been in existence 24 months, it must have no delinquencies in payment greater than 30 days.

- **Overcollateralization**: The AFS will require 120% overcollateralization.
  - For example, a $100 million Bond Loan will require a minimum of $120 million in performing Secondary Loans.
  - Other Pledged Loans for overcollateralization must meet the Secondary Loan Requirements.
Agenda

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- Program Requirements, Structure(s), and Participants – Day 1 Recap
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- Case Study 3 – Alternative Financing Structure
- **Term Sheet – General Recourse and Alternative Financial Structure**
- Financing in Rural Communities and the Rural Infrastructure Lending Class
- Qualified Issuer Discussion Panels
  - QI Application Process
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NOTE: The attached form document is provided for illustrative purposes only and should not be revised or relied on for any other purpose and is subject to further modification by the CDFI Fund. The exact terms and provisions of this document will be set forth in the final document that is executed by each party.

CDFI BOND GUARANTEE PROGRAM
TERM SHEET

[NAME OF ELIGIBLE CDFI]
[Address]

Re: Term Sheet for the Bond Loan related to the [QUALIFIED ISSUER] Future Advance Promissory Bond, YEAR-NUMBER- [ELIGIBLE CDFI]

Ladies and Gentlemen:

This Term Sheet constitutes the commitment of [QUALIFIED ISSUER], as Qualified Issuer and acting as the lender, to provide a Bond Loan to [ELIGIBLE CDFI], acting as the borrower, for the Eligible Purposes set forth herein (the "Eligible Purpose") pursuant to section 314A of the Small Business Jobs Act of 1994 (Pub. L. 103-325, 108 Stat. 2169), as added by section 1134 of the Small Business Jobs Act of 2010 (Pub. L. No. 111-240, 124 Stat. 2504, 2515), codified at 12 U.S.C. § 4713a (the "Act"), as implemented by the regulations set forth at 12 C.F.R. Part 1806 (the "Regulations"). The Bond Loan will be made from the Bond Proceeds, derived from the issuance of the above-referenced Bonds by the Qualified Issuer pursuant to the Act and the Regulations.

This Term Sheet is attached to and made a part of that certain Agreement to Guarantee, dated as of [DATE], between the Qualified Issuer and the Secretary of the Treasury (or his designee), acting as the Guarantor (the "Agreement to Guarantee"). All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement to Guarantee, the Secondary Loan Requirements and/or the Regulations.

By executing this Term Sheet, the Eligible CDFI agrees to the terms herein set forth and to reimburse the Qualified Issuer and the Master Servicer/Trustee for fees and expenses that the

*Closing & Disbursement documents can be found on [http://www.cdfifund.gov](http://www.cdfifund.gov) under the following:

Programs & Training -> Programs -> CDFI Bond Guarantee Program -> CDFI Bond Guarantee Program
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Lending in Rural Communities

- The Bond Guarantee Program highlights opportunities for use of the Bond Proceeds in rural communities through:
  - The Rural Infrastructure Lending Asset Class
  - Other Asset Classes located in Rural Communities
Rural Infrastructure Lending
Asset Class

Rural Infrastructure Lending

- The Asset Class is intended to address the financing of municipal infrastructure projects in low-income or underserved rural areas
- Water, sewer, roads, etc.
CDFIs interested in lending in this Asset Class must address the following underwriting questions for the **Secondary Borrower**:

- Incorporation as an independent public governing body with elected officials that have the authority to levy assessments and/or taxes as necessary to cover operating cost and debt service payment
- The authority to issue debt, secured by a revenue source under the control of the Secondary Borrower
- Management and financial capacity and performance in all facets of the Secondary Borrower operations that include:
  - Governance
  - Key Personnel
  - Financial Performance, liquidity, financial statements and capital and asset adequacy metrics
  - Budgeting and forecasting performance and managing budget to actual discrepancies
  - Funding mechanisms and the ability to manage payment delays
  - A track record of working with State, local and Federal Governments
  - Compliance with all environmental and other governmental standards.
Rural Infrastructure Lending
Secondary Borrower – Underwriting Checklist

- Status of all obligations, including:
  - Debt obligation payment and compliance status
  - Maintenance of good standing status of other obligations
  - Notation of any recent or outstanding corrective actions at the time of the CDFI Underwriting

- Specific to the Secondary Borrower, the CDFI BG Program will review:
  - Operational and financial capacity
  - Track record of working with public private constituencies
  - Funding mechanisms and payment requirements
  - Willingness to pledge expected revenues sources toward repayment of Secondary Loan
– Reliability and sustainability of pledged revenues through taxing powers, economic growth or existing demand, without expiration, competing claims or revocation except as contemplated in the Secondary Loan Agreement

– Current market conditions, demand assumptions, collection assumptions, operating expenses, debt service requirements and any other project related costs or conditions that may affect the project

– Ability of the Secondary Borrower to pay all associated expenses
Rural Infrastructure Lending
Secondary Borrower – Underwriting Checklist

- Working Capital
- Reserves for debt service, operations or maintenance to mitigate identified risks
- Loan-to-value ratio
- Any credit enhancements, grants, guarantees or other support for the Secondary Borrower
- Forecasted performance that incorporates assumptions for user fees, tax receipts or other sources of revenue including reasonable and consistent
Secondary Loans are

- Secured by pledged collateral
- May be used for expansion or major renovation projects
- Must be secured by a perfected senior lien on pledged collateral
- Pledged collateral must have a useful life no less than the life of the proposed Secondary Loan
Rural Infrastructure Lending
Forms of Secondary Loan Collateral

- Collateral to secure Secondary Loans
  - Real estate, including existing structures and land
  - Leasehold mortgages
  - Machinery and equipment
  - Cash and cash equivalents
  - Accounts receivable
  - Letters of Credit
  - Inventory
  - Fixtures
  - Contracted revenue streams from non-federal creditworthy counterparties
Lending in Rural Communities

• BG Program examples:
  – *Retaining and expanding jobs in rural communities.*
  – Two examples from a current Eligible CDFI participant Kentucky Highlands Corp (KHIC).
    1. Somerset Recycling Services, Inc., Somerset, Kentucky
    2. American Health Management, Inc., Richmond, Kentucky
Somerset Recycling Services, Inc. (Somerset Recycling)

- For-profit recycling company since 1984
- The company plans to increase their role as a low cost producer of recycled raw materials for multiple industries with a focus on larger percentages of recycled resin in their products
- KHIC used BG Program Bond Loan proceeds to Refinance¹ Somerset Recycling’s existing debt
- KHIC’s Secondary Loan to Somerset allowed Somerset to lock in a long term fixed interest rate and improve the company’s cash flow position

¹Defined term in the BG Program
American Health Management, Inc. (AHMI)

- C Corporation since 1998
- Largest adult daycare company headquartered in Kentucky with 11 current facilities and enrollment of 525 patients
- Provides adult day health care services to frail and elderly in southern and eastern Kentucky that includes door-to-door transportation, skilled nursing services, nutritious meals, and recreation opportunities
- KHIC used BG Program loan to finance and Refinance¹ loans for AHMI
- KHIC’s Secondary Loans to AHMI allowed AHMI to purchase a new facility and decrease monthly debt service

¹Defined term in the BG Program
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The BG Program must review the collateral associated with each Requisition Package for the following reasons:

- The BG Program is characterized by a General Recourse and Secured Debt structure.
- The BG Program maintains full recourse to the balance sheet of each ECDFI participant.
- However, the Secondary Loans are the primary source of repayment for the Bond Loan and the tangible source of recoveries.
- Thus, the BG Program has an obligation to monitor the underlying assets securing the Secondary Loans.
Upon receipt of a Requisition Package, which has been previously reviewed and approved by the QI, the BG Program conducts the following process:

1. Compliance Management & Monitoring (CMM) reviews the Package for completeness.
2. Upon CMM’s approval, Credit & Risk Management (CRM) reviews the Collateral for conformance with Secondary Loan Requirements using a Collateral Checklist.
3. CMM conducts due diligence using a Disbursement Checklist.
4. If it is the ECDFI’s initial advance, CMM involves the Office of Legal Counsel to ensure all Conditions Precedent are met.
5. The Program Manager (PM) reviews and approves the Package.
6. Upon the PM’s approval, CMM sends disbursement approval to the Federal Financing Bank (FFB).
7. FFB then processes the request.
For every Requisition Package received, the following process is implemented:

- **CMM** reviews the Package for completeness.
- **CRM** reviews the Collateral for conformance with Secondary Loan Requirements.
- **CMM** conducts due diligence.
- If it is the ECDFI’s initial advance, **CMM involves the Office of Legal Counsel to ensure all Conditions Precedent are met.**
- **The PM reviews and approves the Package.**
- Upon the PM’s approval, **CMM sends disbursement approval to the FFB**
- **FFB** then processes the request.
Submission Timeline

- The BG Program must review and approve every Requisition and Advance Request.
- This is a comprehensive and time-sensitive process.
- In order to ensure a requisition can be approved by the requested advance date the BG Program requires the cooperation of the Qualified Issuer’s and Eligible CDFIs.
Submission Timeline

- Requisition Packages to be submitted:
  - **Ten (10) business days prior to the Advance Date**, if the requisition involves the review of no more than four (4) potential pledged loans,
  - **Fifteen (15) business days prior to the Advance Date**, if the requisition involves the review of more than four (4), but less than fifteen (15) potential pledged loans,
  - **Twenty (20) business days prior to the Advance Date**, if the requisition involves more than fifteen (15) potential pledged loans, the financing of Secondary Loans from ECDFIs participating in a loan syndication, or other complex structures.
Submission Timeline

• Wherever possible, participation or syndication loans involving multiple ECDFIs should be coordinated for simultaneous submission to the BG Program.
• The BG Program will require more time to review a Requisition Package if the requisition involves a large number of potential pledged loans, complex or novel financing structures.
An internal BG Program form that demonstrates what is reviewed on each Secondary Loan package submitted by a ECDFI.

Each Requisition Request Package submitted with all information listed on the Collateral Checklist will most likely increase the efficiency and timing of draw requests.
Bond Loan Agreement Section 3.2

• Lender (QI) receipt and approval of requisition:
  ▪ Amount of requisition and paid party
  ▪ Amount to finance or refinance secondary loans
  ▪ Amount for Bond Issuance Fees, <1% of Bond Loan Unpaid Principal Balance
  ▪ Amount of the requisition that qualifies as Costs
  ▪ Amount for loan loss reserves
• Borrower certification of Borrower Credit Committee approval, that incurred costs are Costs of Eligible Purpose, Certificate of Collateral, Itemization of Collateral, and executed loan documents.
• Lender approval and delivery to the MS/T and MS/T approval of requisition with copies of certifications and documentation provided by the Borrower including requisition amount, incurred costs are Costs of Eligible Purpose, Risk Share Pool deposit confirmation, and Advance Date.
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Closing Remarks: Final Questions?