U.S. Department of Treasury
New Markets Tax Credit (NMTC) Program
Minority CDE Training & Technical Assistance
Contract # TFSACDF15C0004

TRAINING CURRICULUM

Module 6
Module #6

Management and Staffing of the CDE

**Goal:** Discuss the business plan of a successful CDE: board recruitment, corporate forms, financial products, pipeline, QEI, capital deployment, financial and community outcomes underwriting, compliance management, outcomes enforcement
Overview: Functions in Managing the CDE - Allocatee

- Recruiting the Board
- Maintaining Corporate Existence
- Creating Impactful Financial Products
- Generating Pipeline
- Attracting and closing QEIs
- Attracting and Deploying Capital in QLICIs
- Financial Underwriting
- Outcomes and Compliance Underwriting
- Asset Management
- Compliance, Outcomes Management
Structuring the CDE’s Staffing

- What skills are **core functions** for the CDE, performed by CDE staff, management, or board members?
- What functions are **necessary skills** for the CDE to manage, obtain, and utilize?
What Board skills and characteristics will strengthen your CDE?
Board Composition

A healthy board includes:

- Variety of lending, investing, legal, impact etc. skills
- Diversity of experiences including ethnic minority knowledge.
- Is complementary to the skills and capacity of the CDE staff and leadership
- Represents Qualified Low-Income Community Representatives
Strategic Relationships

Management staff must be able to create strategic relationships -
What partners do you need to be successful?

Identify and work with:

- Investors
  - Negotiating QEI
  - CDE Indemnification
- Public and private leverage lenders
  - Forbearance agreement—oh, didn’t we mention that?
- Community and government partners
- CDE partners
CDE Housekeeping

Just like the dishes, it's gotta be done.

- Corporate meetings and minutes
- Board member verification
- CDE reports and records
- Transaction tracking, reporting
- CIIS, AMIS
- Community Outcomes
- QALICB Compliance
Creating Impactful Financial Products

- What needs are we trying to fill?
- What are our skills and capacity?
- What are the risks involved in the products we’re trying to create, for us, our investors, and our QALICBs?
- What is the simplest, most elegant solution for meeting our goals?

*We can dream it, but can we close it?*

*What staff skills does the CDE need to address this function?*
Skills to design financial products

- Staff must understand lender’s standards and practices for
  - Underwriting
  - Determining terms
  - Evaluating security
  - Closing
  - Booking
  - Loan Servicing

- Staff must be able to relate conventional practices to LIC needs
Our Projects: Managing the CDE Pipeline

- Why do we choose a project?
- Are there threshold criteria, an early go / no-go decision? Why or why not?
- Are projects political or business decisions, or both?
- Community Outcomes—reasonable? pie in the sky?
- When do we move on to the next one and why?
Staff skills necessary to develop pipeline

- Loan Origination
- NMTC Program Requirements
- Community Outcomes Analysis
- Threshold Underwriting Criteria/Evaluation
Show me the money – bringing capital to LICs

**Staff must have the ability to identify and negotiate**

**Leverage Loan Sources:**

- Bank loans and forbearance

- Public sector community development lender (i.e. sources of CDBG, Section 108, etc)

- Grant funds and enforcement requirements

- Other tax credit programs
Show me the money – bringing capital to LICs

Staff must understand and address investors perspective:

- CDE capacity to manage the program for seven years
- CDE strength to provide enough security for performance under the indemnity, if needed.
- Generates Community Outcomes consistent with the NMTC program
- Supports projects that are in a state of Readiness to Proceed in a timely manner
- All financing sources meet the True Debt Test to ensure that loans don’t get reclassified as grants
Skills to structure leverage loans

Staff must be able to work with:

**Senior Lenders**
- Explain NMTC structure
- Negotiate forbearance requirements
- Negotiate Leverage Lender security

**Grant and Government Sources**
- Explain NMTC structure
- Negotiate forbearance and grant enforcement rights
- Identify funds compatibility problems
- Identify compliance requirements imposed by public sector financing sources (ex. Davis Bacon, MWBE requirements, etc.)
Risk Management: Underwriting skills

Financial Underwriting:

- **Determination of readiness to proceed**
  - Permits, site control, architectural, Geotech, utilities, zoning, appraisal, title, tenants, viability of QALICB as “active” business, community support for project

- **Availability of leverage loan capital**
  - Enforceable commitments from lender with capacity and NMTC experience
  - Proper use of public and grant funds, no regulatory impediments
  - The layered deal
Staff’s ability to verify:

- Investor commitment
- Compliance with QALICB and structure requirements
- Compliance with Allocation Agreement
- Reasonableness and enforceability of community outcomes
- True Debt Test
Asset Management Skills

CDE Staff, or Investor-managed Loan Servicing

- Construction lending
- Permanent loan phase
- NMTC compliance
- Wind-up planning, QALICB refinance capacity and plan
Community Outcomes Management

Initial underwriting – you’re gonna do what? For how many? .... Really?

- Negotiation of Community Benefit Agreements- Would you declare a loan default for failure to deliver outcomes? What does that mean?
- Collecting Data and evaluating its accuracy
- Reporting to CDFI Fund and Investor
- Reporting to Board and Community
- Continuous improvement in program administration
Many different CDE models

- Some CDEs have small staffs and use consultants
- Others have personnel with multiple skill areas
- Staffing all areas can be expensive

Key business decisions include:

- What do we need to DO and what do we need to OVERSEE?
- Which services are available in the market?
- Can we partner with another CDE, for instance for loan servicing?
- How closely do we need to control functions to control risk?
In Summary

Governing/Advisory Board needs to be carefully structured

Staffing must cover

- Loan origination and structuring of loans
- Loan underwriting — non-NMTC plus NMTC underwriting
- Managing Community outcomes
- Asset and project management