CDFI Bond Guarantee Program Secondary Loan Requirements
Underwriting Review Checklist

PART I: INSTITUTIONAL LENDING REQUIREMENTS

Under the CDFI Bond Guarantee Program, the Eligible CDFI must maintain loan policies and procedures to support the making of Secondary Loans under the applicable asset class. The Eligible CDFI’s loan policies and procedures are subject to review as part of the Guarantee approval process. Any changes to these policies made after Guarantee approval must be submitted to the CDFI Fund for review. The complexity of quantifying, modeling and communicating financial (credit) risk into loan policies and procedures can range from simple qualitative statements to complex quantitative models. If the Eligible CDFI uses qualitative statements, the Eligible CDFI must support these statements with key indicators/metrics and values related to the Target Market (as defined in 12.C.F.R. 1805.104), the industry and, asset class.

Eligible CDFIs must comply with, and be able to demonstrate compliance with, their own loan policies and procedures for all loans pledged as collateral under the Program. In addition, the CDFI Bond Guarantee Program requires that Eligible CDFIs meet the following MINIMUM guidelines for credit evaluation and deliberation:

GOVERNANCE & ORGANIZATION
The Eligible CDFI must have governance and organizational structures that support lending practices consistent with its mission. These governance and organizational structures must include:

☐ A governance structure that includes a board of directors or equivalent body (e.g. executive committee);
☐ Policies and procedures related to loan review, underwriting and approval; and
☐ Delegations of authority related to loan approvals, consents, waivers and modifications.

LOAN POLICIES AND PROCEDURES
The Eligible CDFI must have established loan policies and procedures that govern its lending activities. The CDFI Bond Guarantee Program requires that these policies and procedures:

☐ Are documented and are approved by the Eligible CDFI’s board of directors (or equivalent body);
☐ Require that, in the case where the Eligible CDFI utilizes Bond Loan proceeds to finance or refinance the acquisition or assignment of Secondary Loans from a third party, the third party be a community development or mission-based lender as defined by the Eligible CDFI;
☐ Include a process for the update and approval of loan policies and procedures; and
☐ Address:
  o Loan origination and underwriting criteria;
  o Appraisal and collateral valuation requirements, including a requirement to re-appraise collateral pledged to the CDFI Bond Guarantee Program in accordance with the General Requirements of the CDFI Bond Guarantee Program Secondary Loan Requirements;
  o Permitted lending activities;
  o Evaluation of leasehold interests as collateral, if applicable;
  o Secondary Loan interest rates compared with Bond Loan interest rates;
  o Credit approval;
Commitment and closing requirements;
- Pre-development, construction, and lease-up period management, monitoring, and risk mitigation (if applicable);
- Credit reporting metrics and reserve policies;
- Credit and risk management;
- Loan and portfolio monitoring; and
- Consideration of policy exceptions.

CDFI Bond Guarantee Program Asset Classes
The following asset classes are eligible for Secondary Loans. If the Eligible CDFI proposes to make a Secondary Loan in these asset classes, it must maintain loan policies and procedures that are applicable to the unique characteristics of that asset class. The loan policies and procedures for underwriting Secondary Borrowers must also be consistent with the CDFI Bond Guarantee Program’s interim regulations:

1. CDFI-to-CDFI;
2. CDFI to Financing Entity (other than a Certified CDFI);  
3. Charter schools;
4. Commercial real estate;
5. Daycare centers;
6. Healthcare facilities;
7. Rental housing;
8. Rural infrastructure;
9. Owner-occupied homes;
10. Licensed senior living and long-term care facilities;
11. Small business (for-profit); and
12. Not-For-Profit Organizations.

Part II: Minimum Lending Requirements by Asset Class

1. CDFI-to-CDFI Lending:

The Secondary Borrower must be a Certified CDFI or an affiliate of a Certified CDFI. The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

- Management and financial capacity and performance in all facets of operations, including:
  - Governance;
  - Key personnel;
  - Financial performance, liquidity, capital and asset adequacy and metrics;
  - The ability of the Secondary Borrower to pay monthly operating expenses;
  - Loan underwriting policies and capacities;
  - Loan origination processes;
  - Portfolio and risk management, including collections and loan workouts, delinquencies, charge-offs, non-accrual loans, and loss reserves;
  - Management information systems; and
  - Reporting and methodology on loan portfolio performance.
EFFECTIVE FOR ALL SECONDARY LOANS AND OTHER PLEDGED LOANS MADE OR PLEDGED AS OF AUGUST 26, 2019.

☐ Status of all obligations, including:
  ○ For debt obligations, current payment status and compliance with programmatic and financial covenants;
  ○ Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
  ○ Any recent or outstanding corrective actions at the time of the Eligible CDFI’s underwriting of the Secondary Borrower.

☐ Specifically in connection with the Secondary Loan:
  ○ The asset classes for which the Secondary Loan proceeds would be used (deployment of assets);
  ○ Demand for loans from potential borrowers by asset class;
  ○ The Secondary Borrower’s underwriting policies for each asset class should comply with this Underwriting Review Checklist, as applicable. Comparable policies should be utilized for other asset classes;
  ○ If the Secondary Borrower will provide financing for predevelopment, construction and lease-up periods, additional relevant financial and management capacities and risk mitigation policies;
  ○ Sources of repayment of the Secondary Loan, including principal and interest payments;
  ○ Liquidity and organizational cash flows with debt service coverage of the Secondary Loan that can withstand fluctuations without interrupted debt service payments; and
  ○ Treatment and terms of any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

2. CDFI-TO-FINANCING ENTITY LENDING:
The Secondary Borrower must be a Financing Entity as defined in 12 C.F.R. 1805.201(b)(2) and an affiliate of a Certified CDFI. The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

☐ Management and financial capacity and performance in all facets of operations, including:
  ○ Governance;
  ○ Key personnel;
  ○ Financial performance, liquidity, capital and asset adequacy and metrics;
  ○ The ability of the Secondary Borrower to pay monthly operating expenses;
  ○ Loan underwriting policies and capacities;
  ○ Loan origination processes;
  ○ Portfolio and risk management, including collections and loan workouts, delinquencies, charge-offs, non-accrual loans, and loss reserves;
  ○ Management information systems; and
  ○ Reporting and methodology on loan portfolio performance.

☐ Status of all obligations, including:
  ○ For debt obligations, current payment status and compliance with programmatic and financial covenants;
  ○ Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
  ○ Any recent or outstanding corrective actions at the time of the Eligible CDFI’s underwriting of the Secondary Borrower.

☐ Specifically in connection with the Secondary Loan:
The asset classes for which the Secondary Loan proceeds would be used (deployment of assets);
Demand for loans from potential borrowers by asset class;
The Secondary Borrower’s underwriting policies for each asset class should comply with this Underwriting Review Checklist, as applicable. Comparable policies should be utilized for other asset classes;
If the Secondary Borrower will provide financing for predevelopment, construction and lease-up periods, additional relevant financial and management capacities and risk mitigation policies;
Sources of repayment of the Secondary Loan, including principal and interest payments;
Liquidity and organizational cash flows with debt service coverage of the Secondary Loan that can withstand fluctuations without interrupted debt service payments; and
Treatment and terms of any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

3. **Charter Schools Lending:**
The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:
   - Management and financial capacity and performance in all facets of operations, including:
     - Governance;
     - Key personnel, including management depth and dependency on key personnel;
     - Financial performance, liquidity, audited financial statements; and capital and asset adequacy and metrics;
     - Budgeting and forecasting of charter school performance and managing discrepancies between the budget and actual results;
     - Funding mechanisms and the ability to manage reimbursement delays;
     - Educational credentials and experience in the development, management, and operations of a charter school that includes a track record working with State and local governments, as applicable;
     - Yearly progress (or other defined measurement) of school performance;
     - A historical track record of charter school renewal that demonstrates success in meeting charter school requirements and established goals;
     - The likelihood of renewing its school charter(s), taking into account the strength of state and local charter laws; and
   - Status of all obligations, including:
     - For debt obligations, current payment status and compliance with programmatic and financial covenants;
     - Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
     - Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.
   - Specifically in connection with the Secondary Loan:
     - Experience and capacity in constructing and renovating charter schools, if relevant;
     - The likelihood of sufficient student enrollment;
     - All required charters and licenses for the school to be financed;
     - An ability of the Secondary Borrower/project to pay all associated expenses on the project that include principal and interest and all operating and maintenance expenses;
EFFECTIVE FOR ALL SECONDARY LOANS AND OTHER PLEDGED LOANS MADE OR PLEDGED AS OF AUGUST 26, 2019.

- Working capital;
- Debt service coverage of the Secondary Loan and all associated Secondary Borrower debt;
- Loan to value ratio; and
- Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

4. **COMMERCIAL REAL ESTATE LENDING:**

The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

- **Management and financial capacity and performance in all facets of operations, including:**
  - Governance;
  - Key personnel, including management depth and dependency on key personnel; and
  - Financial performance, liquidity, audited financial statements; and capital and asset adequacy and metrics.

- **Status of all obligations, including:**
  - For debt obligations, current payment status and compliance with programmatic and financial covenants;
  - Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
  - Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.

- **Specifically in connection with the Secondary Loan:**
  - Operational and financial capacity for the proposed project that includes a funding mechanism to ensure payment of the Secondary Loan and other obligations;
  - Management and operational experience to carry out the proposed project that includes licensing and background credentials; a track record in the development, management, administration and operations of commercial real estate projects;
  - Financial management capabilities and financial resources to undertake the development and/or operation of the proposed project;
  - Current market conditions, demand assumptions, vacancy rates, collection assumptions, turnover rates;
  - Revenues for the project that include cash flow projections, operating expenses, debt service requirements and any other project related costs or conditions that may affect the project;
  - A methodology and narrative discussion for the projected increase in revenue;
  - The terms and impact of ground leases or other ongoing restrictions to the project and/or property;
  - Operating, lease-up and replacement reserves and any other types of reserves established for the project;
  - Insurance, at all times, to support the project and the organization;
  - As applicable, historical property financial performance that is supported by an audited financial statement, rent roll, project leases and any other operating information pertinent to the underwriting of the project;
  - Working capital;
EFFECTIVE FOR ALL SECONDARY LOANS AND OTHER PLEDGED LOANS MADE OR PLEDGED AS OF AUGUST 26, 2019.

- Debt service coverage of the proposed Secondary Loan and all associated Secondary Borrower debt;
- Loan to value analysis; and
- Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

5. **DAYCARE CENTER LENDING:**
   The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

   - Management and financial capacity and performance in all facets of operations, including:
     - Governance;
     - Key personnel, including management depth and dependency on key personnel;
     - Financial performance, liquidity, audited financial statements, and capital and asset adequacy and metrics;
     - Budgeting and forecasting daycare center performance and managing discrepancies between the budget and actual results;
     - Funding mechanisms and the ability to manage reimbursement delays;
     - A track record in working with State and local governments, as applicable;
     - Compliance with licensing requirements for daycare centers; and
     - Current background and legal checks of employees of the daycare center.

   - Status of all obligations, including:
     - For debt obligations, current payment status and compliance with programmatic and financial covenants;
     - Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
     - Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.

   - Specifically in connection with the Secondary Loan:
     - The specific population to be served (e.g., pre-school aged children, the elderly, the disabled) and any on-site services to be provided;
     - Experience and capacity in daycare center construction and renovation, if relevant;
     - The likelihood of sufficient enrollment, considering 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;
     - All required licenses for the daycare center to be financed;
     - State and local daycare facilities standards;
     - Staffing plan to ensure the safety of all enrollees;
     - An ability of the Secondary Borrower/project to pay all associated expenses on the project that include principal and interest and all operating and maintenance expenses;
     - Working capital;
     - Debt service coverage of the Secondary Loan and all associated Secondary Borrower debt;
     - Loan to value ratio; and
     - Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

6. **HEALTHCARE FACILITIES LENDING:**
The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

- **Management and financial capacity and performance in all facets of operations, including:**
  - Governance;
  - Key personnel, including management depth and dependency on key personnel;
  - Information on the healthcare facility’s sponsoring organization, if applicable, that includes financial audits, historical performance and management capabilities;
  - Financial performance, liquidity, capital and asset adequacy and metrics that is supported by audited financial statements, health service activity reports; reimbursement activities, operating history and any other information pertinent to the underwriting of the project;
  - Budgeting and forecasting healthcare facilities performance and managing discrepancies between the budget and actual results;
  - Funding mechanisms and the ability to manage reimbursement delays;
  - A track record in working with State and local governments and, if applicable, the Federal government;
  - Compliance with licensing requirements for healthcare facilities; and
  - Current background and legal checks of employees of the healthcare facility.

- **Status of all obligations, including:**
  - For debt obligations, current payment status and compliance with programmatic and financial covenants;
  - Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements;
  - The current standing as a Federally Qualified Healthcare Center (as defined in 42 C.F.R. 405.2401), or comparable accreditation; and
  - Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.

- **Specifically in connection with the Secondary Loan:**
  - Experience and capacity in constructing and renovating healthcare facilities, if relevant;
  - Current market conditions, service demand assumptions, reimbursement mechanisms and sources, collection assumptions, operating expenses, debt service requirements and any other project related costs or conditions that may affect the project;
  - All required licenses for the healthcare facility to be financed;
  - An ability of the Secondary Borrower/project to pay all associated expenses on the project that include principal and interest and all operating and maintenance expenses;
  - Working capital;
  - Debt service coverage of the Secondary Loan and all associated Secondary Borrower debt;
  - Loan to value ratio; and
  - Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

7. **RENTAL HOUSING LENDING:**
   In addition to multifamily rental housing, this asset class may include single family rental homes, supportive housing, and rental housing for the elderly unless special licensing is required. The Eligible CDFI must be able to demonstrate underwriting criteria that address the unique financial
characteristics of these asset classes. The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

☐ Management and financial capacity and performance in all facets of operations, including:
  o Governance;
  o Key personnel, including management depth and dependency on key personnel; and
  o Financial performance, liquidity, audited financial statements, and capital and asset adequacy and metrics.

☐ Status of all obligations, including:
  o For debt obligations, current payment status and compliance with programmatic and financial covenants;
  o Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements;
  o Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.

☐ Specifically in connection with the Secondary Loan:
  o Operational and financial capacity for the proposed project that includes a funding mechanism to ensure payment of the Secondary Loan and other obligations;
  o Management and operational experience to carry out the proposed project that includes licensing and background credentials; a track record in the development, management, administration and operations of rental housing projects; and financial management capabilities and financial resources to undertake the development and/or operation of the proposed project;
  o Current market conditions, demand assumptions, vacancy rates, collection assumptions, and turnover rates;
  o Revenues for the project that include cash flow projections, operating expenses, debt service requirements and any other project related costs or conditions that may affect the project;
  o A methodology and narrative discussion for the projected increase in revenue;
  o The terms and impact of ground leases or other ongoing restrictions to the project and/or property;
  o Operating, lease-up and replacement reserves and any other types of reserves established for the project;
  o Insurance, at all times, to support the project and the organization;
  o As applicable, historical property financial performance that is supported by an audited financial statement, rent roll, project leases and any other operating information pertinent to the underwriting of the project;
  o Working capital;
  o Debt service coverage of the proposed Secondary Loan and all associated Secondary Borrower debt;
  o Loan to value analysis;
  o Additional policies for single-family rental homes, supportive housing, and housing for the elderly (provided no special license is required); and
  o Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

8. **Rural Infrastructure Lending:**
This asset class is intended to address the financing of municipal infrastructural projects (water, sewer, etc.) that support development in underserved rural areas as defined in 12 C.F.R. 1808.102. The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

- 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 costs and debt service;
- 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 operations, including:
  - Governance;
  - Key personnel, including management depth and dependency on key personnel;
  - Financial performance, liquidity, audited financial statements; and capital and asset adequacy and metrics;
  - Budgeting and forecasting performance and managing discrepancies between the budget and actual results;
  - Funding mechanisms and the ability to manage payment delays;
  - A track record in working with State, local and Federal governments, as applicable; and
  - Compliance with all environmental and other governmental standards.
- Status of all obligations, including:
  - For debt obligations, current payment status and compliance with programmatic and financial covenants;
  - Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
  - Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.
- Specifically in connection with the Secondary Loan:
  - Operational and financial capacity to undertake the project, including licensing and credentials;
  - A track record of working with various public and private constituencies to develop similar projects;
  - Funding mechanisms and payment requirements, if any, that are predictable, accountable and insulate sources of repayment from any potential performance issues of the proposed facility or project;
  - The authority and willingness to pledge any expected revenue source toward the repayment of the Secondary Loan;
  - The reliability and sustainability of pledged revenues through essentiality of service, taxing powers, reasonably expected economic growth, and/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
  - An ability of the Secondary Borrower/project to pay all associated expenses on the project that include principal and interest and all operating and maintenance expenses;
  - Working capital;
  - Reserves for debt service, operations or maintenance to mitigate identified risks;
o Debt service coverage of the Secondary Loan and all associated Secondary Borrower debt;
o Loan to value ratio;
o Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan; and
o A forecast of performance that incorporates assumptions with respect to user fees, tax receipts, and other sources of revenue. The forecast of performance must also be reasonable and consistent with local market conditions and trends.

9. **OWNER OCCUPIED HOME MORTGAGE LENDING:**
The Eligible CDFI must demonstrate:
o Policies and procedures for compliance management for single-family mortgage loans that includes The Home Mortgage Disclosure Act, Equal Credit Opportunity Act, and Truth-in-Lending requirements, as well as all other applicable Federal requirements and regulations;
o A history of successfully originating and servicing owner-occupied home mortgage loans; and
o The capacity and staffing to originate owner-occupied home mortgage loans.

The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:
o Require the use of the home as the Secondary Borrower’s primary residence and not for investment;
o The condition of the property and durability of major systems (e.g. electrical and plumbing)
o The provision of pre-purchase counseling;
o Property insurance coverage through and beyond the maturity of the Secondary Loan;
o Qualification as a “qualified mortgage” for purposes of the Consumer Financial Protection Bureau’s “ability-to-repay” rules;
o Debt-to-income standards;
o Credit scores;
o Loan to value;
o Require current compliance on all existing debt obligations; and
o Require complete discharge of all bankruptcies for a minimum of two years prior to the closing of the Secondary Loan.

10. **LICENSED SENIOR LIVING AND LONG-TERM CARE FACILITIES LENDING:**
Housing for the elderly should follow the lending policies for Rental Housing if no special licensing is required. For Licensed Senior Living and Long-Term Care Facilities, the Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:

☐ Management and financial capacity and performance in all facets of operations, including:
o Governance;
o Key personnel, including management depth and dependency on key personnel;
o Financial performance, liquidity, audited financial statements, and capital and asset adequacy and metrics;
o Review of Centers for Medicare and Medicaid Service (CMS) records (if applicable);
Experience in the development, management, and operations of a licensed senior living or long-term care facility that includes a track record working with State and local governments; and
Current background and licensing checks of employees of the senior living and long-term care facility.

Status of all obligations, including:
- For debt obligations, current payment status and compliance with programmatic and financial covenants;
- Maintenance of good-standing status with respect to all other obligations, insurance and legal requirements; and
- Any recent or outstanding corrective actions at the time of the Eligible CDFI underwriting of the Secondary Borrower.

Specifically in connection with the Secondary Loan:
- Operational and financial capacity for the proposed project that includes a funding mechanism to ensure payment of the Secondary Loan and other obligations;
- Management and operational experience to carry out the proposed project that includes licensing and background credentials;
- A track record in the development, management, administration and operations of rental housing projects;
- Financial management capabilities and financial resources to undertake the development and/or operation of the proposed project;
- The maintenance of insurance, at all times, to support the project and organization;
- Current market conditions, demand assumptions, rates, fees, vacancy rates, collection assumptions, turnover rates, including consideration of the number and proximity of competing facilities;
- Revenues for the project that include cash flow projections, operating expenses, debt service requirements and any other project related costs or conditions that may affect the project;
- A methodology and narrative discussion for the projected increase in revenue;
- Diversity of payment sources;
- The terms and impact of ground leases or other ongoing restrictions to the project and/or property;
- Operating, lease-up and replacement reserves and any other types of reserves established for the project;
- Insurance, at all times, to support the project and the organization;
- As applicable, historical property financial performance that is supported by an audited financial statement and any other operating information pertinent to the underwriting of the project;
- Working capital;
- Debt service coverage of the proposed Secondary Loan and all associated Secondary Borrower debt;
- Loan to value analysis; and
- Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan.

11. Small Business (For Profit) Lending:
The Eligible CDFI’s underwriting criteria for a Secondary Borrower under this asset class must address the following:
o A track record of each Secondary Borrower principal’s ability to pay personal debt as it comes due and to comply with all applicable Federal, State and local laws;

o The capacity to provide Eligible CDFI with recurring business financial reports that include annual and interim balance sheets, income statements, and any other financial or operational reports that the Eligible CDFI will require. If the Secondary Borrower has any third-party guarantors, the aforementioned financial statement requirement would apply to third-party guarantors;

o Knowledge of the business and market as evidenced by a complete business plan that includes sections on marketing (e.g. product pricing and proposed customer base); finance (e.g., monthly cash flow projections on a best, worst and most likely case basis); operations, management plan and staffing; and proposed legal structure;

o Demand for its services as indicated in stable or increasing earnings before interest, taxes, depreciation and amortization (EBITDA). The debt service of the Secondary Borrower small business cannot depend upon rapidly increasing cash flow projections;

o Sufficiency of operating cash flows to repay the Secondary Loan on time from the operating cash generated over the term of the proposed Secondary Loan;

o Documented evidence of investment in the enterprise (small business) for which the Secondary Loan is sought;

o Commitment for success of the small business;

o The ability of the Secondary Borrower to operate as a for-profit company;

o Any Credit Enhancements, grants, guarantees or other support to the Secondary Borrower that impact the underwriting and/or risk mitigation of the Secondary Loan; and

o Personal guarantees of all small business owners/principals for a portion or the entire Secondary Loan or credit enhancement.

12. NOT-FOR-PROFIT LENDING:
When the Eligible CDFI’s lends to a not-for-profit organization undertaking projects within any of the aforementioned asset classes, the underwriting criteria for that asset class will apply. In cases when the not-for-profit organization’s project does not correspond with any of the aforementioned asset classes, the Eligible CDFI’s underwriting criteria for a Secondary Borrower must address the following:

o The track record of compliance with all applicable Federal, State and local laws;

o Proof of good standing as a non-profit entity under Section 501(c) of the Internal Revenue Code;

o Stability of leadership including key management, staffing, and Board of Directors;

o An evaluation of liquidity and solvency through the current ratio and operating reserves ratio;

o Current budget and comparisons of historical budgets to actual budgets;

o Funding diversity through an evaluation of the funding source concentration and related ratio analysis;

o Debt service analysis;

o The capacity to provide the Eligible CDFI with recurring business financial reports that include annual and interim balance sheets, income statements, and any other financial or operational reports that the Eligible CDFI will require;

o Financial statements of any third-party guarantors;

o Capital campaign plan to support the Secondary Loan (if applicable); and

o Report on previous funding history.