



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

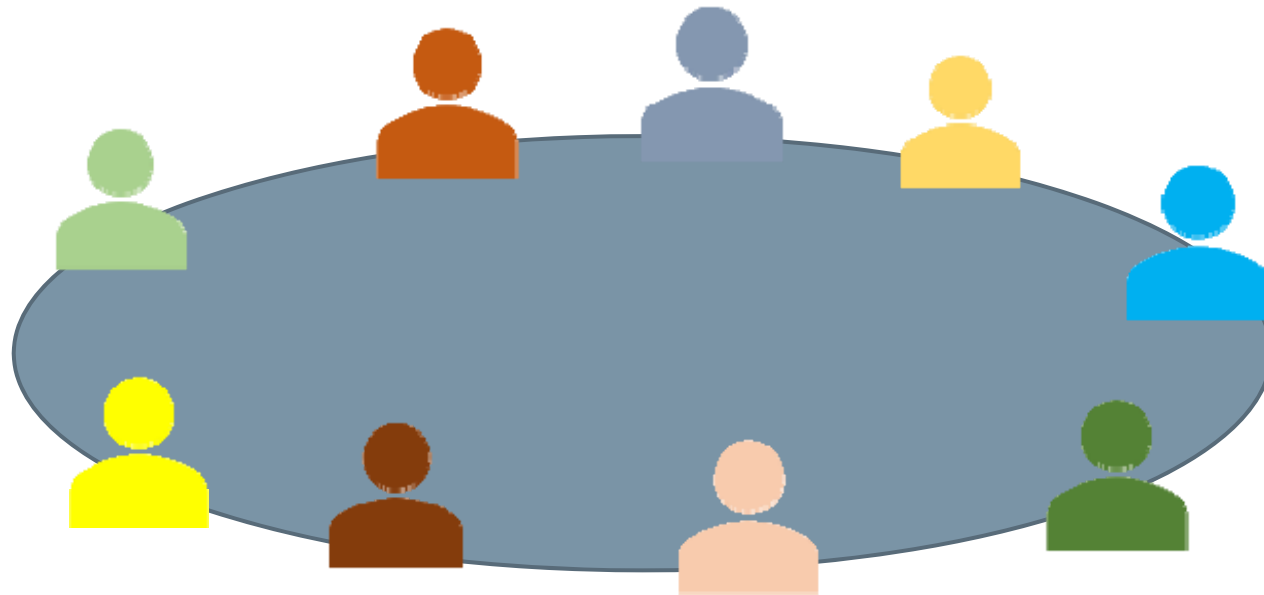
Overview: Functions in Managing the CDE - Allocatee

- Recruiting the Board
- Maintaining Corporate Existence
- Creating Impactful Financial Products
- Generating Pipeline
- Attracting and closing QEs
- Attracting and Deploying Capital in QLICs
- 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 QEs
 - 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

NMTC Underwriting

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

CDE-Allocatee Staffing Plan

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