

CMF Guidance for Reinvestment of Program Income

Applicable to Recipients of 2017, 2018, and 2019 Awards

All Recipients of Capital Magnet Fund (CMF) Awards must enter into an Assistance Agreement with the CDFI Fund as a condition of the Award. The Assistance Agreement governs the use of the Award, the terms and conditions of the Award, Performance Goals and other compliance requirements and responsibilities. Section 3.8 of the Assistance Agreement prescribes the authorized uses of Program Income and requirements for reinvestment of Program Income.

To assist Recipients in understanding and complying with the requirements of Section 3.8, this Guidance is intended to support, clarify, and further explain the provisions of Section 3.8 of the Assistance Agreement; but it does not replace, alter, or act as a substitute for them. Capitalized terms in this Guidance are defined in the CMF Interim Rule and/or the Assistance Agreement.

Program Income Explained

Program Income is revenue earned by a Recipient that is directly generated by investment of the CMF Award into Projects. When the Recipient uses a CMF Award to make loans to, or investments in, a Project, Program Income will result from the return of equity or the repayments of loan principal, as well as any interest income, etc. on those loans and/or investments. The requirements in Section 3.8 of the Assistance Agreement regarding Program Income apply only to CMF Award dollars and do not include principal and equity repayments of Leveraged Capital (non-CMF Award dollars) or interest and other returns on Leveraged Capital.

When the CMF Award is used to fund Loan Loss Reserves or Loan Guarantees, any CMF Award dollars that are returned or made available to the Recipient as a result of the funds becoming unrestricted from Loan Loss Reserves or Loan Guarantees is Program Income and should be treated as Program Income in the form of principal and/or equity repayments.

Program Income in the Form of Principal and/or Equity Repayments

Program Income earned during the CMF five-year Investment Period in the form of principal and/or equity repayments of the CMF Award is subject to specific requirements outlined in your Assistance Agreement and must be reinvested in accordance with either Section 3.8(a) or Section 3.8(b), as specified in Schedule 1 of your Assistance Agreement.

Program Income in the Form of Interest

Program Income generated from interest earned is treated differently than Program Income generated from principal and/or equity repayments. Under both Section 3.8(a) or 3.8(b), the only restriction on Program Income in the form of interest is that it must be used by the Recipient solely to further the objectives of its mission. Interest income can be used to support additional Affordable Housing Activities, although this is not a requirement.

After the Investment Period ends, all forms of Program Income must be used by the Recipient solely to further the objectives of its mission as a Certified CDFI or Nonprofit Organization.

Two Sets of Requirements Governing Reinvestment of CMF Program Income in the Form of Principal and/or Equity Repayments during the Investment Period

As noted above, Program Income earned during the Investment Period in the form of principal and/or equity repayments of the CMF Award (hereafter referred to as Program Income) is subject to specific requirements outlined in your Assistance Agreement. These requirements depend on whether or not the Recipient included reinvestment of the CMF Award as part of its leveraging strategy in its CMF Application.

Section 3.8(a) – Applicable for Recipients Who Proposed to Reinvest CMF Award in their Application

Section 3.8(a) of the Assistance Agreement applies to Recipients who planned to reinvest the CMF Award during the five-year Investment Period and indicated such in their Application. Under Section 3.8(a), any Projects that are financed and/or supported with Program Income are part of the Recipient's portfolio of CMF Projects and must comply with the requirements of the CMF Interim Rule. However, only Projects financed with Program Income and completed within the five-year Investment Period (achieve Project Completion) will be included when evaluating the Recipient's compliance with portfolio-level Performance Goals listed in Schedule 1 of the Assistance Agreement at the conclusion of the Investment Period.

For Recipients for whom Section 3.8(a) is indicated in Schedule 1 of the Assistance Agreement as **applicable**, the following requirements apply to the Recipient's use of Program Income in the form of principal and/or equity repayments of the CMF Award during the five year Investment Period:

Requirements

- a) Limited to Eligible Activities: During the five year Investment Period, Program Income may only be used to finance/support authorized eligible activities and eligible uses in your Assistance Agreement.
- b) Use only in the Service Area: During the five-year Investment Period, Program Income may only be used for Projects in the Recipient's approved Service Area for that Award.
- c) Meet Production Targets: Program Income, earned during the Investment Period is to be used to meet or exceed the production targets for total Eligible-Income Units (Section 3.2(c)) of the Assistance Agreement.
- d) Meet Targeted Income Requirements: Projects funded with Program Income must be used by the Recipient to achieve its targeted income requirements for rental and/or Homeownership Housing as measured over the Recipient's CMF Portfolio, as specified in Schedule 1 and Sections 3.2(d)(i)-(ii), 5.2(a) and 5.3(a)) of the Assistance Agreement, as applicable.
- e) Minimum Percentage of Units for Low-Income Families for each Multi-family Project: In each Multi-family rental Project financed with Program Income, at least 20% of the units must be occupied by Low-Income Families as required in Section 5.2(b) of the Assistance Agreement.
- f) Areas of Economic Distress Requirements: Projects financed/supported with Program Income will be included in the calculation when determining if the Recipient has met the required percentage of Affordable Housing in Areas of Economic Distress (AED) as indicated in Section 3.2(d)(iii). This means that the Recipient should continue to fund Projects in Areas of Economic

Distress so that the overall percentage of units will meet or exceed the Section 3.2(d)(iii) benchmark throughout the Investment Period, even when using Program Income.

- g) Economic Development Activities: For Recipients approved for Economic Development Activities (EDA), if Program Income is used to finance EDA, the Projects must be located in Low-Income Areas or Underserved Rural Areas. Use of the CMF Award for EDA, including Program Income, may never exceed 30% of the Award amount.
- h) Leverage Requirements: Reinvestment Program Income shall count towards achieving or exceeding the leverage requirements set forth in Section 3.2(g). Program Income earned and used for Projects completed in the five-year Investment Period is considered additional leverage and any additional leverage may result in exceeding the leverage requirements set forth in Section 3.2 (g), including the 10 times minimum overall leverage requirement; the private leverage cost and the Recipient-level multipliers¹ set forth in Schedule 1 of the Assistance Agreement.
- i) Reinvest Balances above \$100,000: Recipients are encouraged to reinvest Program Income as soon as possible after it is earned. At the end of each fiscal year during the Investment Period, if the cumulative balance of any Program Income (in the form of principal and/or equity repayments of the CMF Award) earned, that is not otherwise Committed, equals \$100,000 or more, Recipients must Commit at least the amount in excess of the \$100,000 threshold within 12 months of the end of the Recipient's fiscal year in which the \$100,000 Program Income balance was achieved.
- j) Projects Must Be Completed within the Investment Period to be Counted: Recipients have 36 months to complete Projects financed and/or supported with Program Income. However, please note that any Projects funded with Program Income during the Investment Period that are not completed during that period (do not achieve Project Completion) will not be counted toward meeting the Recipient's Performance Goals listed in Schedule 1. In other words, if a Recipient needs a Project to count toward its performance as specified in the Assistance Agreement, it must be completed within the five-year Investment Period.
- k) Ten Year Affordability Applies: All Projects financed and/or supported with Program Income earned during the five-year Investment Period must meet the requirements of the CMF Interim Rule, including the 10 year Affordability requirements, as specified in the Assistance Agreement.

Costs Paid with Program Income must be Eligible Project Costs: Program Income shall be used to achieve Eligible Project Cost requirements (Section 5.1). Costs financed/supported with Program Income will be considered part of a Project's Eligible Project Costs. However, be aware that costs cannot be counted twice as Eligible Project Costs. Therefore, if the Project was originally financed/supported by the CMF Award, any costs paid for with Program Income may not be counted as Eligible Project Costs.

Reminders

¹ Note: The Recipient-level multiplier is a Performance Goal for the FY2017 and FY2018 CMF Awards and does not apply for FY2019 CMF Awards.

- Program Income Always Increases Leverage: Reinvestment of Program Income will be counted toward meeting the leverage requirements as specified in Section 3.2(g) of the Assistance Agreement. Note that because this measurement is in the form of a multiplier, use of Program Income to finance additional Eligible Project Costs always increases leverage and never decreases it. However, remember that that costs cannot be counted twice as Eligible Project Costs; if the Project was originally financed/supported by the CMF Award, any Program Income invested in the Project may not be counted as Eligible Project Costs .
- After the Investment Period: After the end of the Investment Period, the Recipient shall invest all forms of Program Income earned to further the objectives of its mission as a Certified CDFI or Nonprofit Organization.

Section 3.8(b) Applicability - Recipients Who Did Not Propose to Reinvest the CMF Award in their Application

Section 3.8(b) applies if the Recipient did **not** propose a reinvestment strategy in the Application. These Recipients are afforded additional flexibility on reinvestment should they earn unplanned principal and/or equity repayments of \$100,000 or more at the end of each fiscal year during the Investment Period:

Requirements

- Limited to Eligible Activities: During the five-year Investment Period, Program Income in the form of principal and/or equity repayments of the CMF Award may only be used to finance and/or support authorized eligible activities and eligible uses in the Recipient's Assistance Agreement.
- Use only in the Service Area: During the five-year Investment Period, Program Income in the form of principal and/or equity repayments of the CMF Award may only be used for Projects in the Recipient's approved Service Area for that Award.
- Areas of Economic Distress Requirements: While encouraged to continue activity in Areas of Economic Distress (AED), Recipients subject to Section 3.8(b) of the Assistance Agreement are not required to use their Program Income to finance and/or support additional Projects in AEDs.
- Reinvest Balances above \$100,000: Recipients are encouraged to reinvest Program Income as soon as possible after it is earned. At the end of the each fiscal year during the Investment Period, if the cumulative balance of any Program Income (in the form of principal and/or equity repayments of the CMF Award) earned, that is not otherwise Committed equals \$100,000 or more, Recipients must Commit at least the amount in excess of the \$100,000 threshold within 12 months of the end of the Recipient's fiscal year in which the \$100,000 Program Income balance was achieved.
- Minimum Percentage of Units for Low -Income Families for each Multi-family Project: In each Multi-family rental Project financed with Program Income, at least 20% of the units must be occupied by Low-Income Families as required in Section 5.2(b) of the Assistance Agreement.
- Economic Development Activities: For Recipients approved for Economic Development Activities (EDA), if Program Income is used to finance EDA, the Projects must be located in Low-Income Areas or Underserved Rural Areas. Use of CMF Award on EDA, including Program Income, may not exceed a cumulative amount greater than 30% of the Award.

- g) Thirty-six Months to Complete Projects: Recipients have 36 months to complete Projects financed and/or supported with Program Income since these Recipients are meeting their production requirements through the Award and not through Program Income.
- h) Ten Year Affordability Applies: All Projects financed and/or supported with Program Income earned during the five-year Investment Period must meet the requirements of the CMF Interim Rule, including the 10 year Affordability requirements, as specified in the Assistance Agreement. Program Income earned during the five year Investment Period and used to finance or support Affordable Housing completed within the five-year Investment Period is factored into the Eligible Project Cost calculation.
- i) Leverage Requirements: There are no additional requirements related to leveraging Program Income. Program Income earned and used for Projects completed in the five-year Investment Period is considered additional leverage of the CMF Award and, although not required, any additional leverage may result in exceeding the leverage requirements set forth in Section 3.2 (g), including the 10 times minimum overall leverage requirement; the private leverage cost and the Recipient-level multipliers² set forth in Schedule 1 of the Assistance Agreement.
- j) Costs Paid with Program Income must be Eligible Project Costs: Costs financed/supported with Program Income will be considered part of a Project's Eligible Project Costs. However, remember that costs cannot be counted twice as Eligible Project Costs.. Therefore, if the Project was originally financed/supported by the CMF Award, any costs paid for with Program Income may not be counted as Eligible Project Costs.

Reminders

- Program Income Always Increases Leverage: Program Income investments always increase leverage when used to finance and/or support additional Projects. The Program Income investment is considered Leveraged Capital. Thus, the use of Program Income to finance additional Eligible Project Costs always increases leverage and never decreases it. However, be aware that costs cannot be counted twice as Eligible Project Costs if the Project was originally financed/supported by the CMF Award.
- After the Investment Period: After the end of the Investment Period, the Recipient shall invest all forms of Program Income earned to further the objectives of its mission as a Certified CDFI or Nonprofit Organization.

If Recipients have questions, they should submit them to the CDFI Fund via a Service Request in the Awards Management Information System (AMIS).

² Note: The Recipient-level multiplier is a Performance Goal for the FY2017 and FY2018 CMF Awards but does not apply for FY2019 CMF Awards.