



Program Income: What You Need to Know

**Capital Magnet Fund
Award Years 2017-2020
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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

www.cdfifund.gov

Presentation Goals



The goal of this presentation is for Capital Magnet Fund (CMF) Recipients to better understand:

- What constitutes Program Income in the CMF Program
- Program Income reinvestment requirements
- When and how Program Income requirements are evaluated

NOTE: Capitalized terms are defined in the CMF Interim Rule or CMF Assistance Agreement

Program Income References



- CMF Interim Rule: References the Uniform Administrative Requirements.

Uniform Administrative Requirements, 2 C.F.R. § 200.80:
Program income means all gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance.

- CMF Context: Generally, Program Income is the repayment of CMF Award principal and equity, or interest from CMF investments.

NOTE: This presentation is NOT a substitute for reviewing the Assistance Agreement and CMF Interim Rule.

Program Income: Inclusions



The following are considered Program Income:

- The repayment of CMF loan principal and/or equity.
- Award dollars returned or made available from CMF Loan Loss Reserves or Loan Guarantees as a result of funds becoming unrestricted.
- Interest earnings on CMF Award loans and investments, which must be used for mission purposes.

Two Types of CMF Program Income



Repayment of a CMF Investment



Interest and Other

- Repayment of principal or equity (CMF portion) on CMF loans or investments;
- CMF loan or investment recoveries; and
- CMF Loan Loss Reserves or Loan Guarantee capital that becomes unrestricted.

Any other form of Program Income – typically interest.

Program Income: Exclusions



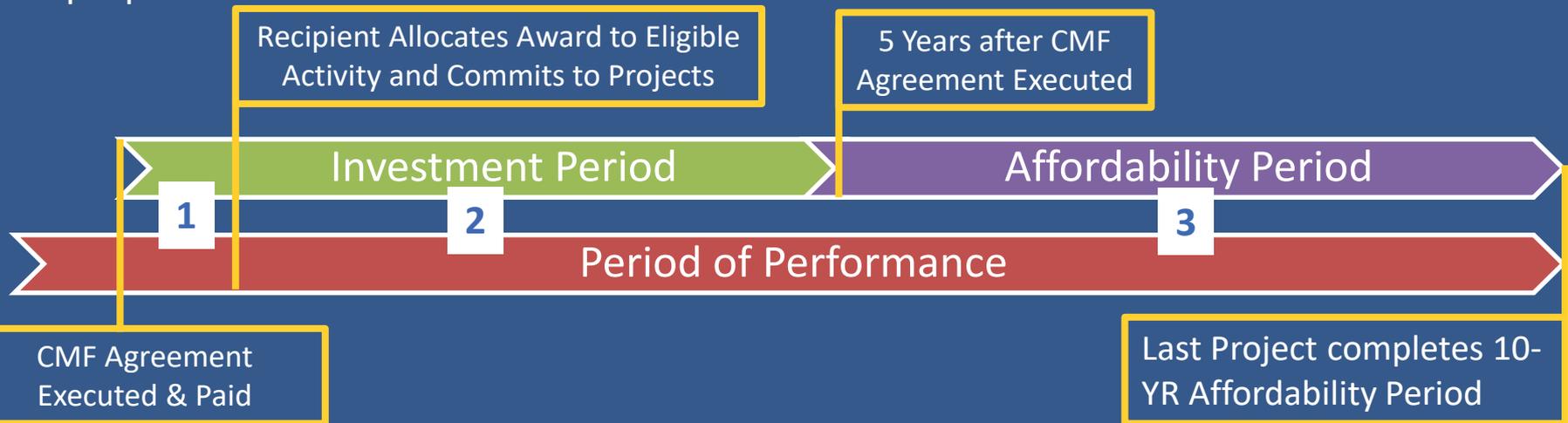
The following are not considered Program Income:

- Any return of leveraged capital (Leveraged Costs) to the Recipient, including Enterprise-Level Capital.
- Any earnings on investments of leveraged capital such as interest, dividends, fees.
- Interest earned on the Advance Payment of the CMF Award is not Program Income, but may be subject to remittance rules as described in the Assistance Agreement.

Program Income & Award Lifecycle



1. The Investment Period begins upon execution of the CMF Agreement. Interest earned on Advance Payment of the CMF Award must be remitted to the U.S. Government.
2. Once the CMF Award is allocated to an eligible activity (i.e. Affordable Housing Fund) or Committed:
 - a. Any interest earned is considered Program Income for the remainder of the Investment Period
 - b. Repaid CMF loan principal and/or equity is subject to reinvestment requirements
3. During the Affordability Period, Program Income must be used for mission purposes.



Program Income Requirements Evaluated Annually



During the Investment Period, the following rules apply to any Program Income earned **in the form of equity and loan principal repayments or unrestricted CMF Loan Loss Reserve or Loan Guarantee capital:**

- Net balance of Program Income is measured at the end of each fiscal year.
- If the balance at fiscal year end is \$100,000+, Program Income reinvestment requirements are triggered:
 - Balance over \$99,999 must be Committed by the end of the Recipient's next fiscal year.
 - Project Completion must be achieved within 36 months of commitment.

Example: Recipient receives a \$150,000 loan principal repayment (Program Income) in Year 2 and does not commit any such Program Income in Year 2. In Year 3, the Recipient must commit a minimum of \$50,001. \$99,999 may be “banked” for future investment or could also be Committed.

Program Income: Assistance Agreement

Section 3.8



Section 3.8 of the Assistance Agreement outlines additional Program Income requirements. Recipients are subject to either 3.8(a) or 3.8(b), as outlined in Schedule I of the Recipient's Assistance Agreement:

- Reinvestment identified in the Application as part of a leverage strategy = Section 3.8(a) applies.
- Strategy identified in the Application does not include reinvestment = Section 3.8(b) applies.
- Applies during the five-year Investment Period.
- Program Income earned in any form after the Investment Period must be used to further Recipient's mission until the Award is closed out.

Program Income: 3.8(a) vs. 3.8(b)



- 3.8(a): Reinvestment was proposed in the Application as part of the Applicant's strategy during the five-year Investment Period.
 - Projects financed/supported with Program Income are part of the Recipient's CMF portfolio.
 - Only those Projects that achieve Project Completion during the Investment Period will count towards Performance Goals.
- 3.8(b): Reinvestment was not proposed as part of the Applicant's strategy during the five-year Investment Period.
 - Expected to meet Performance Goals with initial deployment of the CMF Award. PI investments do not affect performance percentages.
 - May count PI towards Performance Goals, if Projects achieve Project Completion during Investment Period.

Program Income Investment Requirements: Sections 3.8(a) and 3.8(b)



Both Section 3.8(a) and Section 3.8(b) subject Program Income investments to many of the same requirements as CMF Award investments:

1. Limited to Eligible Activities (3.2(a)) and Eligible Uses (3.2(b))
2. Invest exclusively in Projects in the approved Service Area for the Award (3.2(f))
3. Multi-Family Project Low-Income targeting (5.2(b))
4. Projects must have 10-year Affordability Period (5.1(a))
5. Program Income can only be used for Eligible Project Costs (3.4, 5.1)
6. EDAs using Program Income must be in Low-Income Areas (3.2(d)(iv))

Note: This is not a comprehensive list of Program Income investment requirements.

Program Income Investment Requirements: Sections 3.8(a) and 3.8(b), cont.



	3.8(a)	3.8(b)
Performance Goal	Program Income earned during the Investment Period:	
Production Targets (3.2(c))	<u>Must</u> be used to meet the Recipient's production targets.	<u>May</u> be used to meet the Recipient's production targets.
Targeted Incomes: Rental Housing, VLI Families (50% AMI) (3.2(d)(i), 5.2(a))	<u>Must</u> be used to achieve Rental Affordable Housing VLI target (50% AMI).	May be used for Rental Affordable Housing with targeted incomes <u>not exceeding 120% AMI</u> .
Targeted Incomes: Homeownership Housing, LI Families (80% AMI) (3.2(d)(ii), 5.3(a))	<u>Must</u> be used to achieve Homeownership Affordable Housing LI target (80% AMI).	May be used for Homeownership Affordable Housing with targeted incomes <u>not exceeding 120% AMI</u> .
Areas of Economic Distress (3.2(d)(iii))	<u>Must</u> be used to achieve AED benchmark.	May be used in AED, but not required.

Program Income: 3.8(a) vs. 3.8(b) Example



CMF Portfolio

Initial Award Deployment

Benchmark	Goal	Outcome
Production	100 Units	100 Units
Areas of Economic Distress (AED)	50%	50% 50 Units
VLI Rental (50% AMI)	70%	70% 70 Units



\$200,000 PI Earned Y3



Program Income Investment

20 Rental Units
 Non-AED (0 Units)
 50% VLI (10 VLI Units)
 Complete by YR 5

3.8(a)

PI reinvestment lowers AED & VLI Rental ratio; Recipient is noncompliant.

Benchmark	Outcome	
	3.8(a)	3.8(b)
Production	120 Units	120 Units
AED	41.7% 50 /120 Units	50% 50/100 Units
VLI Rental	66.7% 80/120 Units	70% 70/100 Units

3.8(b)

Recipient achieved Performance Goals with initial Award deployment; Recipient is compliant.

Program Income Reinvestment- Key Things to Know



1. Project Completion

- Projects financed exclusively with Program Income must be completed within 36 months of commitment, BUT...
- To “count” towards the Recipient’s Performance Goals, the Project must achieve Project Completion during the Investment Period.
- Projects financed with both initial deployment of the CMF Award and Program Income must achieve Project Completion during the Investment Period.

2. **Disbursement:** There is no deadline to start disbursing Program Income into any individual Project.

3. **Interest Income:** Program Income in form of interest earnings must be used for mission purposes, and can be used for additional CMF Project investments.

4. **Eligible Project Costs:** Program Income shall only count towards Eligible Project Costs (3.4, 5.1) if expended during the Investment Period and the Project achieves Project Completion.

Contact Info & Support



Help and Resources

- **AMIS User Guide:** A step-by-step AMIS User Guide can be found on the AMIS homepage at <https://amis.cdfifund.gov/s/AMISHome>

For the best service, the CDFI Fund recommends submitting a Service Request in AMIS. Select “Capital Magnet Fund” for Program and clearly indicate the issue in the subject line.

Contact Information		
Type of Question	Telephone	Email
Award Support	202-653-0421	CMF@cdfi.treas.gov
AMIS Support	202-653-0422	AMIS@cdfi.treas.gov