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The purpose of this document is to provide information on the CDFI Bond Guarantee Program. This document will be updated as necessary to reflect updates as available. This document should be used for guidance purposes only, and should not be used as a substitute for reading the authorizing statute or as a substitute for reading the program regulations and application materials when published. In the event of any inconsistency between the contents of this document and the statute or regulations, the provisions of the statute and regulations shall govern.

(1) What is the CDFI Bond Guarantee Program?

The CDFI Bond Guarantee (BG) Program was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240, Section 1134) on September 27, 2010. The legislation authorizes the U.S. Department of the Treasury (Treasury), through the Community Development Financial Institutions Fund (the CDFI Fund), to guarantee the full amount of notes or bonds issued by Qualified Issuers to support Community Development Financial Institutions (CDFIs) that make investments for eligible community or economic development purposes. Such bonds or notes will support CDFI lending and investment by providing a source of long-term capital to CDFIs. Treasury may guarantee up to 10 bonds per year through 2014, each at a minimum of $100 million; the total guarantee (per year) cannot exceed $1 billion. The maximum maturity of each bond is 30 years.

(2) What are the authorized uses of bond proceeds?

The unpaid principal balances of the bonds must be invested as follows:

- (i) Bond proceeds may be used to originate new loans to CDFIs, or refinance existing loans with CDFIs, for eligible community development purposes. Such purposes include, but are not limited to, developing or supporting, through lending, investing, enhancing liquidity, or other means of finance: commercial facilities that promote revitalization, community stability, and job creation/retention; community facilities; the provision of basic financial services; housing that is principally affordable to low-income people; businesses that provide jobs for low-income people or are owned by low-income people; community or economic development in low-income or underserved rural areas; and such other activities that the CDFI Fund may deem appropriate.
- (ii) No less than 90 percent of the bond proceeds must be invested as loans to CDFIs for eligible community or economic development purposes.
- (iii) Up to 10 percent of the bond proceeds may be held by the Qualified Issuer in a re-lending account to be used for new loans to CDFIs for eligible community or economic development purposes that come due prior to the termination of the bond.

In addition, an amount equivalent to at least 3 percent of the guaranteed amount outstanding on the subject notes and bonds must be held in a risk share pool that is capitalized by contributions made by eligible CDFI participants.

(3) Who will purchase the bonds?

The Federal Financing Bank (FFB), a U.S. Government corporation under the general supervision and direction of Treasury, will purchase the bonds issued under the BG Program, consistent with the Office of Management and Budget (OMB) Circular A-129. Because the FFB's cost of funds is equivalent to the current Treasury rates for comparable maturities, the FFB can provide the least expensive funds to generate loans, which represents the most efficient way to finance the bonds. For more information on the FFB, visit http://www.treasury.gov/ffb/.

(4) Who may issue the bonds?

Under the BG Program, the CDFI Fund must designate participating bond issuers as Qualified Issuers.[1] The Qualified Issuer must be a certified CDFI or an entity designated by the CDFI to serve as an issuer. In either instance, the CDFI or its designee must be approved by the CDFI Fund to serve as a Qualified Issuer. Additional Qualified Issuer requirements will be set forth in the BG Program regulations, when published.

(5) How does an entity apply to become a Qualified Issuer?

As noted above, a CDFI or any entity designated to issue bonds on behalf of a CDFI will apply to the CDFI Fund for the authority to issue bonds under the BG Program. The Qualified Issuer must demonstrate that it has the appropriate expertise, capacity and experience to make loans to CDFIs for eligible community or economic development purposes. In addition, the application to be designated as a Qualified Issuer applicant will require, among other things:

- (i) An acceptable statement of the proposed sources and uses of funds;
- (ii) A Capital Distribution Plan that demonstrates that not less than 90 percent of the principal amount of guaranteed bonds (other than the costs of issuance fees) shall be used to make loans to CDFIs for any eligible community or economic development purpose, measured annually, beginning one year from the date of issuance; and
- (iii) A certification that the bonds or notes to be guaranteed will be used to make loan to eligible CDFIs for eligible community or economic development purposes.

(6) When will the CDFI Fund begin accepting applications from entities seeking to be designated as Qualified Issuers?

[1] Capitalized terms are defined in the authorizing statute.

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The CDFI Fund is currently in the process of developing the BG Program regulations and application materials. The CDFI Fund anticipates that the regulations will be published for comment and application materials will be released in FY 2012.

(7) What is involved in the application review process and how long will the review period last?

The BG Program review process will consist of several elements which may occur simultaneously:

(i) An evaluation of the qualifications of the entity seeking to serve as a Qualified Issuer. The CDFI Fund will review application materials and will follow up, as necessary, with the applicant to gather any additional information needed to determine if the entity is eligible to serve as the Qualified Issuer; and

(ii) An evaluation of the Capital Distribution Plan. The CDFI Fund will review the Capital Distribution Plan to (among other things):

(1) Confirm the eligibility of the proposed activities;
(2) Evaluate the applicant's ability to satisfy its investment requirements;
(3) Assess the applicant's financial strength and stability; and
(4) Determine the risk of default.

The CDFI Fund anticipates issuing an opinion regarding the status of a Qualified Issuer within 30 days of receiving complete, accurate and timely application materials. Based on the evaluation of the Capital Distribution Plan and OMB's subsidy rate calculation, a determination on the feasibility of the bond guarantee will be made by the CDFI Fund within 90 days of receiving complete, accurate and timely application materials. After the CDFI Fund has approved the bond guarantee, the Qualified Issuer will work with the FFB to secure bond financing.

(8) How does the Federal Credit Reform Act (FCRA) of 1990 impact a CDFI's participation in the Bond Guarantee Program?

Any federal program that provides direct loans or loan guarantees is subject to FCRA. The requirements under FCRA are detailed in OMB Circular A-11, Part 5. Consistent with this Circular, OMB will calculate the present value of cash flow to the government resulting from each bond issuance to determine if each bond issuance meets the BG Program parameters. OMB will use the Credit Subsidy Calculator (CSC2) to discount the cash flow using the interest rate on marketable zero-coupon Treasury securities with the same weighted average maturity as the bond issuance. A credit subsidy appropriated by the Congress is be required to offset any projected loss beyond the risk share pool. To date, Congress has not appropriated funds for such purpose.

(9) How is the interest rate determined for a bond issuance under the BG Program?

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FFB determines the cost of capital (interest rate) under the BG Program. The interest rate for each bond issuance under the BG Program will be comparable to Treasury securities plus a liquidity premium, to mitigate risk to the Treasury. Qualified Issuers may be required to secure additional credit enhancements to improve the internal risk scoring of an application.

(10) Is there anything that a CDFI can do to prepare for the BG Program in advance of publication and release of program regulations and application materials?

Yes. A CDFI or an entity wishing to participate in the BG Program as a Qualified Issuer should begin to:

(i) Identify potential bond counsel, servicers and trustees, to participate in the issuance;
(ii) Identify potential CDFI borrowers;
(iii) Assemble loan portfolio quality and performance data for all loans currently in the portfolio of CDFI borrowers; and
(iv) Develop a plan for the use of bond proceeds, including a pipeline of transactions.

(11) Does the CDFI Fund have authority to provide guarantees for bonds issued by Qualified Issuers in FY 2012?

No. FCRA requires that certain appropriations language be included in the appropriations related to credit programs. As written, the BG Program's authorizing statute does not meet the appropriations language requirements outlined in FCRA. However, the President's proposed FY 2013 budget includes support to implement the BG Program and the specific appropriations language mandated by FCRA. The CDFI Fund is working diligently to obtain Congressional authority to provide guarantees for bonds issued by Qualified Issuers in FY 2013.