A Bond for All...

*A perspective on the Bond program from some of the most recent participants*

Why they Participated in the Bond Program?
What they liked and didn’t like about the application process, and what they like/dislike about the program.

Specific Objections

- The Rate is too high.
- The program is inflexible.
- The program is designed for Large CDFI’s.
An Apple does not equal an Orange

(25yr Loan) ≠ (5yr Loan)

35 year history of 5yr and 30yr Treasury Yields
Percent time historical rates were higher

% of time historical rates 5yr and 30yr rates were higher

- 30-Year Rates were higher than 30-Year October 2015 Rate
- 5-Year Rates were higher than 5-Year October 2015 Rate
- 5-Year Rates were higher than 30-Year October 2015 Rate

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Hypothetical Loan Analysis
5yr Loan vs. 25yr Loan

### Base Payment Analysis

<table>
<thead>
<tr>
<th></th>
<th>5yr Loan</th>
<th>25yr Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount:</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>CDFI Borrowing Rate:</td>
<td>3.00%</td>
<td>3.90%</td>
</tr>
<tr>
<td>CDFI Spread:</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>CDFI Loan Rec. Rate:</td>
<td>5.50%</td>
<td>6.40%</td>
</tr>
<tr>
<td>Loan Term (months):</td>
<td>60</td>
<td>300</td>
</tr>
<tr>
<td>Amortization (months):</td>
<td>300</td>
<td>360</td>
</tr>
<tr>
<td><strong>Monthly Payment:</strong></td>
<td><strong>$6,141</strong></td>
<td><strong>$6,255</strong></td>
</tr>
<tr>
<td>% of o/s Balance at Balloon:</td>
<td>89%</td>
<td>32%</td>
</tr>
</tbody>
</table>

### Interest only Analysis

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Interest Only Period (months):</td>
<td>0</td>
<td>24</td>
</tr>
<tr>
<td><strong>Payment during Interest Only Period:</strong></td>
<td><strong>$6,141</strong></td>
<td><strong>$5,333</strong></td>
</tr>
</tbody>
</table>
Bond Program Flexibility

- Small Business
- Not-for-Profit Organizations
- Commercial Real Estate
- Rental Housing
- Charter Schools
- CDFI-to-Financing Entity
- Single Family Mortgages

Not Just for Large CDFI’s

<table>
<thead>
<tr>
<th>CDFI</th>
<th>Bond Loans Amounts</th>
<th>Total Assets</th>
<th>Total Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDFI 1</td>
<td>15,000,000</td>
<td>54,677,602</td>
<td>27,898,226</td>
</tr>
<tr>
<td>CDFI 2</td>
<td>15,000,000</td>
<td>53,323,355</td>
<td>22,890,959</td>
</tr>
<tr>
<td>CDFI 3</td>
<td>15,000,000</td>
<td>41,442,979</td>
<td>22,706,700</td>
</tr>
<tr>
<td>CDFI 4</td>
<td>10,000,000</td>
<td>72,459,698</td>
<td>55,007,910</td>
</tr>
<tr>
<td>CDFI 5</td>
<td>28,000,000</td>
<td>60,145,351</td>
<td>18,256,393</td>
</tr>
<tr>
<td>CDFI 6</td>
<td>28,000,000</td>
<td>95,075,945</td>
<td>30,789,555</td>
</tr>
<tr>
<td>CDFI 7</td>
<td>16,000,000</td>
<td>16,344,707</td>
<td>12,066,371</td>
</tr>
</tbody>
</table>

Federal credit program to provide long-term, fixed rate debt to Eligible CDFIs to (re)finance Eligible Activities.

Taxable bonds are purchased by the Federal Financing Bank. Department of Treasury is the Guarantor.

Qualified Issuers serve as the financial intermediary (conduit) between the federal government and the broader CDFI industry.

CDFI Fund designed the BGP as a zero cost subsidy to the taxpayer.
Policy Goals
- Promote community and economic development in America’s underserved or rural populations and distressed communities.
- Support CDFI lending activities by providing access to long-term, fixed rate capital.

The Role of The Qualified Issuer
- Assemble (structure) and package Eligible CDFIs into a Bond Issue pool.
- Serve as a point of contact between the Eligible CDFIs and the CDFI Fund.
- Submit a Guarantee Application for a Bond Guarantee.
- Serve in the role of Program Administrator and Servicer of the Bond Issue.
Considerations

- Organizational capacity
- Experience in sourcing, underwriting, closing and monitoring the selected Asset Classes
- Financial Capacity to Warehouse Loans
- Default and Collateralization Considerations with Current or Future Funders
- Lending Concentrations

Pipeline of Eligible Secondary Loans

- Historical experience in sourcing, underwriting, closing and monitoring the selected Asset Classes?
- 12 and 24 month commitment (closing) thresholds; 100% deployed in 5 years.
- Secondary Loan Requirements:
  - Interim Regulations
    - 1808.307, 1808.308, 1808.608, 1808.609, 1808.614, 1808.615 and 1808.618
- Interest Rate Risk Management – locks at draw
- Optional Call Provision with FFB – bond prepayment protection
- Product Profitability
  - Term and amortization of Bond Loan versus Secondary Loans
  - Spread
  - Credit and Loss Assumptions

Business Plan for Use of Bond Proceeds – Does it Work?

- Secured, long-term fixed rate capital
- General recourse debt to the Eligible CDFI. Primary source of repayment is cash flow from operations.
- Covenant Themes
  - Profitability
  - Asset Quality
  - Equity Position
  - Leverage
- Custodian and Escrow Agent Requirement

Borrowing Capacity
**What Decisions Do Eligible CDFIs Need To Make?**

- Qualified Issuer
- Asset Classes
- Financial Covenants
- Overcollateralization level
- Term (i.e. up to 29.5 years) and Payment Frequency
- Prepayment Provisions
- Credit Enhancements

Qualified Issuer and Eligible CDFI Document In Term Sheet at Time of Guarantee Application

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**What Drives an Eligible CDFI’s Cost to Borrower?**

**Cost Drivers:**
- Size of Bond Issue
- # of Eligible CDFIs
- # of Secondary Loans / Bond Loan Draws
- Bond Term
- Escrow and custodian agent required
Insights to the Application & Review Process

- Eligibility Screen and Completeness of Application
- Underwriting
  - Credit Evaluation
  - Conference Calls
  - OMB
- Due Diligence/On-Site Visit
  - Focus on safety and soundness
  - Completeness of policies and compliance procedures
  - Loan underwriting and servicing
  - Selected file review

Myths vs Facts

Myths:
- The capital is too expensive.
- BGP capital cannot be used for business lending.
- BGP only works for large CDFIs.
- BGP demand is low (based upon current approvals and participants in the programs).
- CDFIs lending does not match up with BGP Secondary Loan Requirements.

Facts:
- 29.5 year fixed rate – equivalent to 18yr treasury
- 12 Eligible Asset Classes. BGP operates as a secured borrowing base facility
- CDFI to CDFI Lending; acquisition mechanism to facilitate purchases
- 7 transactions totaling $852 million closed to date; CDFIs are currently acquiring or originating new product that meet BGP requirements.
- Principal Loss Collateral Provision (in Lieu of)
Bond Issuance All In Costs

Key Resources