

Community Development Financial Institutions Fund

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2015	FY 2016	FY 2017	FY 2016 to FY 2017	
	Enacted	Enacted	Request	\$ Change	% Change
Community Development Financial Institutions Program	\$152,400	\$153,423	\$153,423	\$0	0.00%
Bank Enterprise Award Program	\$18,000	\$19,000	\$19,000	\$0	0.00%
Native American CDFI Assistance Program	\$15,000	\$15,500	\$15,500	\$0	0.00%
Administration	\$23,100	\$23,600	\$26,000	\$2,400	10.17%
Healthy Food Financing Initiative	\$22,000	\$22,000	\$22,000	\$0	0.00%
Small Dollar Loan Program	\$0	\$0	\$10,000	\$10,000	N/A
Subtotal, Community Development Financial Institutions Fund	\$230,500	\$233,523	\$245,923	\$12,400	5.31%
User Fees	\$1,040	\$1,059	\$1,269	\$210	19.83%
Recovery from Prior Years	\$3,924	\$5,200	\$5,200	\$0	0.00%
Unobligated Balances from Prior Years	\$10,856	\$5,500	\$5,500	\$0	0.00%
Total Program Operating Level	\$246,320	\$245,282	\$257,892	\$12,610	1.79%
Direct FTE	79	79	87	8	10.13%
Reimbursable FTE	0	0	0	0	N/A
Total FTE	79	79	87	8	10.13%

Summary

The FY 2017 Budget requests an appropriation of \$245,923,000 for the Community Development Financial Institutions Fund (CDFI Fund) to support its mission of promoting economic opportunity and community development.

The CDFI Fund expands the availability of credit, investment capital, and financial services in distressed urban and rural communities and for underserved populations. The CDFI Fund carries out the Community Development Banking and Financial Institutions Act of 1994, as well as certain programmatic provisions of the Community Renewal Tax Relief Act of 2000, the Housing and Economic Recovery Act of 2008 (HERA), and the Small Business Jobs Act of 2010.

The CDFI Fund supports the creation and expansion of diverse Community Development Financial Institutions (CDFIs),

which provide loans, investments, business counseling, basic banking services, and financial literacy training to underserved communities. Working primarily through CDFIs, the CDFI Fund facilitates business development, commercial real estate, housing development and home ownership. The CDFI Fund's activities leverage billions of private sector investment dollars from banks, foundations, and other funding sources on a cumulative basis.

The FY 2017 Budget proposes funding for the CDFI Program and Native American CDFI Assistance (NACA) Program, the Bank Enterprise Award Program, the Small Dollar Loan Program, and the Healthy Food Financing Initiative (HFFI). The CDFI Fund's request also includes funding for the administration, operational support, and management associated with these programs and the New Markets Tax Credit (NMTC)

Program, the CDFI Bond Guarantee Program, and the Capital Magnet Fund (CMF).

CDFI FY 2017 Budget Highlights

Dollars in Thousands

Community Development Financial Institutions Fund	FTE	Amount
FY 2016 Enacted	79	\$233,523
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$412
Pay-Raise	-	\$100
Pay Annualization	-	\$33
Non-Pay	-	\$279
Non-Recurring Costs:	-	(\$337)
Research and Evaluation (Data Collection)	-	(\$337)
Subtotal Changes to Base	-	\$75
Total FY 2017 Base	79	\$233,598
Program Changes:		
Program Increases:	-	\$12,325
Administration	8	\$2,325
Small Dollar Loan Program	-	\$10,000
Total FY 2017 Request	87	\$245,923

FY 2017 Budget Adjustments

Maintaining Current Levels (MCLs)

Pay-Raise +\$100,000 / +0 FTE

Funds are requested for the proposed January 2017 pay-raise.

Pay Annualization +\$33,000 / +0 FTE

Funds are requested for annualization of January 2016 pay-raise.

Non-Pay +\$279,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

Non-Recurring Costs

Administration – Research and Evaluation (Data Collection) -\$337,000 / +0 FTE

The CDFI Fund will non-recur a portion of research and evaluation funding. This reduction will not impact on-going research and evaluation.

Program Increases

Administration +\$2,325,000 / +8 FTE

This increase will allow the CDFI Fund to allocate an estimated \$74 million in awards under the CMF in FY 2017 and to develop the

Community Development Impact Measuring Estimator (CDIME) modeling tool. Awards made through the CMF program will be funded by annual transfers from Fannie Mae and Freddie Mac pursuant to HERA.

Small Dollar Loan Program +\$10,000,000 / +0 FTE

The CDFI Fund requests \$10 million for the Small Dollar Loan Program to provide CDFIs with Financial Assistance grants to establish loan loss reserve funds and Technical Assistance grants for capacity building. These awards will encourage CDFIs to address the issue of predatory lending in their communities and provide an alternative to payday lenders.

Explanation of Budget Activities

Community Development Financial Institutions Program (\$153,423,000 from direct appropriations)

The CDFI Program uses federal resources to invest in and build the capacity of CDFIs to serve low-income and underserved individuals and communities lacking adequate access to affordable financial products and services. The CDFI Program provides monetary awards for financial assistance to further economic development (job creation, business financing, and commercial real estate development); affordable housing (housing development and homeownership); and community development financial services (provision of banking services to underserved communities and financial literacy training).

The CDFI Program also provides technical assistance awards to help CDFIs build their capacity to serve their target markets through the acquisition of consulting services, technology purchases, and training.

Additionally, CDFI Program provides capacity-building initiatives that foster the

development of CDFIs through training and technical assistance.

New Markets Tax Credit Program (\$0 from direct appropriations)

The NMTC Program attracts private sector capital into low-income communities. Community Development Entities (CDEs) apply to the CDFI Fund for allocations of tax credit authority in annual competitive rounds. Taxable investors receive NMTCs in exchange for making equity investments in these CDEs, which in turn invest equity or debt into qualified businesses. In addition to awarding tax credit allocation authority, the CDFI Fund monitors CDE compliance through the terms of their allocation agreements.

On December 18, 2015, Congress extended the authorization of the NMTC Program for \$3.5 billion per year in qualifying investments, and permitted the NMTC to offset the Alternative Minimum Tax (AMT) liability.

Bank Enterprise Award Program (\$19,000,000 from direct appropriations)

Through the BEA Program, the CDFI Fund encourages insured depository institutions to increase investments and services in distressed communities and to provide financial assistance to CDFIs. Organizations that receive BEA Program awards are required to reinvest those funds back into distressed communities.

Native American CDFI Assistance Program (\$15,500,000 from direct appropriations)

The Native Initiatives include two components: (i) the NACA Program through which financial assistance and technical assistance awards are provided to build the capacity of new or existing Native CDFIs serving Native Communities; and (ii) complementary capacity-building initiatives that foster the development of Native CDFIs through training and technical assistance,

strengthen their operational capacity, and guide them in the creation of important financial education and asset-building programs for their communities.

Healthy Food Financing Initiative (\$22,000,000 from direct appropriations)

Through the Administration's Healthy Food Financing Initiative, the CDFI Fund will build on program achievements in FYs 2011 - 2015 by continuing to support and finance healthy food alternatives in low-income communities.

CDFI Bond Guarantee Program (\$0 from direct appropriations)

The Small Business Jobs Act of 2010 (Public Law 111-240) created the CDFI Bond Guarantee Program. Bonds issued under the program support CDFI lending activity in underserved communities by providing a source of long-term capital. Qualified Issuers (CDFIs or their designees) issue bonds that are guaranteed by the Secretary of the Treasury and use the bond proceeds to make loans to Eligible CDFIs for eligible community and economic development purposes. These purposes include community and economic development financing for affordable multi-family rental housing, small businesses, healthcare facilities, charter schools, and commercial real estate in low-income or underserved rural areas.

Capital Magnet Fund (\$0 from direct appropriations)

The Housing and Economic Recovery Act of 2008 authorized CMF to be administered by the CDFI Fund. The purpose of CMF is to make awards to CDFIs and qualified nonprofit housing providers that would be leveraged to attract other financing sources for affordable housing. By statute, recipients must leverage CMF dollars by a factor of at least 10:1.

Administration (\$26,000,000 from direct appropriations)

Administration encompasses the CDFI Fund’s operational support and management activities for each of the monetary award, bond guarantee, and tax credit programs that it administers. This includes finalizing the terms of assistance agreements with awardees, making disbursements, and monitoring awardee compliance with the terms of their multi-year assistance and allocation agreements. In addition, resources will be utilized for a business application enhancement upgrade and external program research evaluations. Administration funds will also support the non-monetary award programs and activities (the NMTC Program, CDFI and CDE certification and recertification) and the administration of the CDFI Bond Guarantee Program and the CMF.

Legislative Proposals

Treasury requests extension of the CDFI Bond Guarantee Program through FY 2017 and proposes reforms to the program to increase participation and ensure credit-worthy CDFIs have access to this important source of capital, while continuing to maintain strong protections against credit risk. Treasury proposes the following legislative changes to the CDFI Bond Guarantee Program: (i) to extend the program through FY 2017; (ii) to reduce the minimum bond issue size from \$100 million to \$25 million; (iii) to permit the Secretary to adjust the risk-share pool payment requirement, based on the borrower’s credit quality, from zero to four percent; (iv) to collect a mandatory one percent fee from all borrowers; and (v) to revise the relending account language to correct a technical drafting error.

CDFI Performance by Budget Activity

Budget Activity	Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY2017 Target
Community Development Financial Institutions Program	CDFI - Percent of Loans & Investments Originated in Distressed communities and to underserved populations by amount of loans (Annual) %	77.1%	70.8%	80.1%	60.0%	60.0%
Administration	ALL - Award Cycle Time (months)	6.8	7.1	8.3	7.0	7.0
Administration	ALL – Affordable Housing (units)	26,391	32,621	27,004	29,000	29,000
New Markets Tax Credit Program	Community Development Entities' Annual Qualified Equity Investments In Low-Income Communities (\$ billions)	\$5.5	\$4.0	\$3.0	\$3.5	\$3.5
New Markets Tax Credit Program	NMTC-Percentage of Loans and Investments that went into Severely Distressed Communities (percentage)	78.50%	73.80%	75.20%	72.00%	72.00%

Key: DISC – Discontinued

Description of Performance

In the FY 2015 funding round of the CDFI Program, the CDFI Fund received applications from 356 organizations, requesting over \$435 million in financial and technical assistance

awards. In addition, 33 qualified organizations applied for the Healthy Food Financing Initiative (HFFI) requesting \$101 million. In September 2015, the CDFI Fund awarded more than \$160 million in grants to 152

CDFIs. Additionally 11 organizations were awarded \$22 million for HFFI. This activity shows the continued strong growth in demand for CDFI Fund Programs.

As detailed in the CDFI Fund Performance by Budget Activity Table, in FY 2015, CDFI Program awardees reported that over 80 percent of loans were originated in distressed communities and to underserved populations. By regulation, CDFIs must originate 60 percent or more of their loans and investments in eligible distressed census tracts or to underserved populations. The threshold is set at 60 percent in recognition that CDFIs need to balance safety and soundness by maintaining a diversified portfolio. Loans in highly distressed areas tend to be higher risk as well as less efficient to originate and manage. The trend for FY 2012-2015 indicates that CDFI awardees have been successful in meeting their mission of serving distressed communities and underserved populations while maintaining sound investment portfolio performance.

In FY 2015, 21 prior HFFI awardees reported 206 HFFI investments totaling \$88.3 million. There were 119 retail investments totaling over \$69 million that developed 1,564,732 square feet of new retail space for projects ranging from small green grocers to large supermarkets which served low-income, low-access census tracts. In addition, there were 87 non-retail investments totaling over \$19 million in projects involving production and distribution, which developed 1,718,088 square feet of space for eligible healthy food activities.

In FY 2015, the application-award timeframe was missed by more than one month because of a change in matching funds requirements under the December 2014 appropriation language which required supplemental notification to applicants and additional

reviews of the applicant's matching funds documentation. The seven-month target has been retained for both FY 2016 and 2017 because the CDFI Fund has revised its internal policies and procedures to improve the cycle times for the application review and matching funds procedures. In addition, once the CDFI Fund's new Awards Management Information System (AMIS) is fully deployed, the application cycle time should further benefit from the automation of application intake and review.

The All-Affordable Housing measure captures the number of affordable housing units developed or produced as a result of CDFI Fund awards, as reported by CDFI, NMTC and CMF program awardees. The actual results of 27,000 affordable housing units for FY 2015 fell short of the ambitious target of 36,000 units. The target was missed due to changes in housing investments across programs. There were declines in housing lending by CDFI awardees largely due to a decline in the number of awardees focusing on housing (3,000 fewer units than the prior year), a slight decline in NMTC housing investments (540 fewer than the prior year) and a deferral of the completion of 1,300 CMF funded housing units to 2016. A provisional target is retained for 2016 which does not factor in results from future rounds of funding for CMF. Please note that for CMF awards made in FY 2016, the outcomes will not be reported until FY 2018.

The 2014 NMTC investment authority was allocated in FY 2015 due to delayed passage of the authorizing legislation. In the 2014 round, the NMTC Program awarded \$3.5 billion in NMTC investment authority to 76 CDEs, out of a pool of applicants requesting \$19.9 billion.

The FY 2015 target for Qualified Low-Income Community Investments (QLICs) was set at \$5 billion to reflect the actual annual tax credit

authority requested. The FY 2015 target was not met because the prior year's tax credit authority had been limited to \$3.5 billion. The 2011-2013 trends reflect the effect of higher tax credit authority at \$5 billion and the subsequent decrease in 2014 for QLICs reflects the lower levels of tax credit authority. A complementary measure of program performance is investments in severely distressed communities because it measures impact. In FY 2015 the investments in severely distressed communities exceeded the target. This performance indicates that NMTC investors continue to meet their commitments in severely distressed communities.