

## Community Development Financial Institutions Fund

### Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2014	FY 2015	FY 2016	FY 2015 to FY 2016	
	Enacted	Enacted	Request	\$ Change	% Change
Community Development Financial Institutions Program	146,364	152,400	157,593	5,193	3.41%
Bank Enterprise Award Program	18,000	18,000	0	(18,000)	-100.00%
Native American CDFI Assistance Program	15,000	15,000	16,000	1,000	6.67%
Administration	24,636	23,100	24,930	1,830	7.92%
Healthy Food Financing Initiative	22,000	22,000	35,000	13,000	59.09%
<b>Subtotal, Community Development Financial Institutions Fund</b>	<b>\$226,000</b>	<b>\$230,500</b>	<b>\$233,523</b>	<b>\$3,023</b>	<b>1.31%</b>
Offsetting Collection - Reimbursables	206	0	0	0	0.00%
User Fees	0	249	986	737	295.98%
Recovery from Prior Years	4,200	5,200	5,200	0	0.00%
Unobligated Balances from Prior Year	24,817	10,856	5,500	(5,356)	-49.34%
<b>Total Program Operating Level</b>	<b>\$255,223</b>	<b>\$246,805</b>	<b>\$245,209</b>	<b>(\$1,596)</b>	<b>-0.65%</b>
Direct FTE	76	79	87	8	10.13%
<b>Total FTE</b>	<b>76</b>	<b>79</b>	<b>87</b>	<b>8</b>	<b>10.13%</b>

### Summary

The FY 2016 Budget requests an appropriation of \$233,523,000 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, 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 2016 Budget proposes funding for the CDFI Program and Native American CDFI Assistance (NACA) Program, as well as the Healthy Food Financing Initiative (HFFI). In addition to funding the administration of these programs, the CDFI Fund request also includes funding to administer the New Markets Tax Credit (NMTC) Program, the CDFI Bond Guarantee Program, and the Capital Magnet Fund (CMF). The CDFI Bond Guarantee Program supports CDFI long-term lending in underserved areas by providing a source of long-term capital.

## CDFI FY 2016 Budget Highlights

Dollars in Thousands

Community Development Financial Institutions Fund	FTE	Amount
<b>FY 2015 Enacted</b>	<b>79</b>	<b>\$230,500</b>
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$437
Pay-Raise	-	\$100
Pay Annualization	-	\$26
FERS Contribution Increase	-	\$38
Non-Pay	-	\$273
Non-Recurring Costs:	-	(\$523)
Research and Evaluation	-	(\$523)
Efficiency Savings:	-	(\$84)
Travel Savings	-	(\$84)
Subtotal FY 2016 Changes to Base	-	(\$170)
<b>Total FY 2016 Base</b>	<b>79</b>	<b>\$230,330</b>
Program Changes:		
Program Increases:	-	\$21,193
Community Development Financial Institutions Program	-	\$5,193
Native American CDFI Assistance Program	-	\$1,000
Healthy Food Financing Initiative		\$13,000
Administration - Capital Magnet Fund	8	\$2,000
Program Decreases:	-	(\$18,000)
Bank Enterprise Award Program	-	(\$18,000)
<b>Total FY 2016 Request</b>	<b>87</b>	<b>\$233,523</b>

## FY 2016 Budget Adjustments

### Maintaining Current Levels (MCLs)

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

Funds are requested for the proposed January 2016 pay-raise.

#### **Pay Annualization +\$26,000 / +0 FTE**

Funds are requested for annualization of January 2015 pay-raise.

#### **FERS Contribution Increase +\$38,000 / +0 FTE**

Funds are requested for increases in agency contributions to the Federal Employee Retirement System based on updated actuarial estimates.

#### **Non-Pay +\$273,000 / +0 FTE**

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

### Non-Recurring Cost

#### **Administration – Research and Evaluation (Data Collection) -\$523,000 / +0 FTE**

The CDFI Fund will non-recur a portion of research and evaluation funding.

### Efficiency Savings

#### **Administration -\$84,000 / +0 FTE**

The CDFI Fund will reduce travel costs through the use of fewer travelers, video conference calling, and hosting of award announcements locally.

### Program Increases

#### **CDFI Program +\$5,193,000 / +0 FTE**

The CDFI Fund will increase the amount and number of financial assistance (FA) and technical assistance (TA) awards. An increase of \$5.19 million to the CDFI Program will result in 5 to 6 additional FA awards, allowing an increase in the number of business and microenterprise loans, home improvement and purchase loans, residential real estate transactions, and other consumer loans and products offered by CDFI awardees.

#### **Native American CDFI Assistance Program +\$1,000,000 / +0 FTE**

The CDFI Fund will increase the NACA Program by \$1 million in order to increase participation by Native communities by improving technical assistance and capacity building for Native CDFIs.

#### **Healthy Food Financing Initiative +\$13,000,000 / +0 FTE**

The CDFI Fund will increase the amount and number of FA awards for the Healthy Foods Financing Initiative. An increase of \$13 million will result in 6 to 7 more awards to expand the offering of affordable financing for

healthy food retail options in distressed communities.

***Administration - Capital Magnet Fund  
+\$2,000,000 / +8 FTE***

The CDFI Fund proposes to increase its administrative budget by \$2 million to administer the CMF. The CDFI Fund estimates this will support approximately \$60 million in award funding. Awards made through the CMF will be funded by annual transfers from Fannie Mae and Freddie Mac.

**Program Decreases**

***Bank Enterprise Award Program***

***-\$18,000,000 / +0 FTE***

The President's Budget proposes not to fund the BEA program in FY 2016.

**Explanation of Budget Activities**

***Community Development Financial  
Institutions Program (\$157,593,000 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 basic 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.

***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 credits, the CDFI Fund monitors CDE compliance through the terms of their allocation agreements.

The FY 2016 President's Budget proposes to permanently extend the NMTC, allowing up to \$5 billion in qualifying investment in each year beginning in 2015. The proposal would also permit the NMTC to offset the Alternative Minimum Tax (AMT) liability.

***Native American CDFI Assistance Program  
(\$16,000,000 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  
(\$35,000,000 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. To date, all 12 of the first-round HFFI

awardees and 11 of the 12 second-round awardees have reported on three years of HFFI investments. In total, 99 loans/investments were made to 114 projects totaling \$43,589,977 in HFFI eligible activities. A total of 64 retail outlets were funded resulting in 899,021 square feet of new retail space developed for projects ranging from small green grocers to large supermarkets, all serving low-income, low-access census tracts. Another 50 non-retail projects developed 1,122,816 square feet of space for eligible healthy food activities such as farming and development of distribution centers.

***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. For the FY 2013 round of the program, the CDFI Fund received 8 guarantee applications that represented \$825 million in bond guarantees. The Department of Treasury provided guarantees totaling \$325 million. In FY 2014, the CDFI Fund received three guarantee applications that represented a total of \$415 million in guarantees and the Department of Treasury provided guarantees of \$200 million.

***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 (\$24,930,000 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 Capital Magnet Fund.

**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 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2016 Target
Community Development Financial Institutions Program	CDFI - Percent of Loans & Investments Originated in Distressed communities and to underserved populations by amount of loans (Annual) %	84.9%	77.1%	70.8%	60.0%	60.0%
Administration	ALL - Award Cycle Time (months)	6.5	6.8	7.1	7.0	7.0
Administration	ALL – Affordable Housing (units)	27,433	26,391	32,621	36,000	29,000
New Markets Tax Credit Program	Community Development Entities' Annual Qualified Equity Investments In Low-Income Communities (\$ billions)	\$4.7	\$5.5	\$4.0	\$3.5	\$3.5

Key: DISC - Discontinued and B – Baseline

### Description of Performance

In the FY 2014 funding round of the CDFI Program, the CDFI Fund received applications from 411 organizations, requesting over \$500 million in financial and technical assistance awards and for the Healthy Food Financing Initiative (HFFI). The CDFI Fund awarded more than \$195 million in grants to 197 CDFIs, including \$22.4 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 2014, CDFI Program awardees reported that over 70 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 inefficient to originate and manage. The trend for FY 2012-2014 indicates that CDFI awardees have been successful in meeting their mission of serving distressed communities and underserved populations while maintaining sound investment portfolio performance. The three year trend line shows a drop from 85 percent to 71 percent, however from year to year it is typical for this number to fluctuate. The 10 year average from FY 2003-2012 was 74%, which is comparable to the three year average of 77% for FY 2012-2014.

In FY 2014, the CDFI Fund completed its application-award cycle for all program awards in 7.1 months. The application-award target was missed slightly because of a change in congressionally mandated matching funds requirements. In the FY 2014 appropriation Congress required supplemental notification of applicants and additional reviews of the applicant's matching documentation. The target remains 7 months for FYs 2015 and 2016.

In FY 2014, the CDFI Fund reported supporting the creation or preservation of 32,621 units of affordable housing for its *All-affordable housing* measure. This includes housing outcomes from the CDFI, NMTC and CMF programs. The target was exceeded due to higher than projected results achieved by CMF awardees. The targets for FY 2015 and 2016 do not factor in results from future rounds of funding for CMF. The outcomes of

the FY 2016 CMF awards will not be reported until FY 2017.

In FY 2014, NMTC allocatees reported making annual qualified investments of nearly \$4 billion in low-income communities, falling below the stretch target of \$5 billion. The goal was established based on expectations about investments made from available tax authority balances. The FY 2015 and FY 2016 targets were decreased to \$3.5 billion to reflect the actual annual tax credit authority enacted by Congress in recent years.