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2-3-2010

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Recommended Citation

United States: Department of the Treasury, "Obama Administration Announces enhancements for TARP Initiative for Community Development Financial institutions" (2010). *YPFS Documents (Series 1)*. 8847. <https://elischolar.library.yale.edu/ypfs-documents/8847>

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U.S. DEPARTMENT OF THE TREASURY

Press Center

Obama Administration Announces enhancements for TARP Initiative for Community Development Financial institutions

2/3/2010

TG-533

In October, President Obama announced a new program under the Troubled Asset Relief Program (TARP) to invest lower-cost capital in Community Development Financial Institutions (CDFIs) that lend to small businesses in the country's hardest-hit communities. Under this program, CDFI banks, thrifts and credit unions – which have been certified by Treasury as targeting more than 60 percent of their small business lending and other economic development activities to underserved communities – would be eligible to receive capital investments at a dividend rate of 2 percent, compared to the 5 percent rate that was offered under the Capital Purchase Program (CPP).

Key Terms and Enhancements to TARP Initiative to Support CDFIs

- **As Announced in October, Lower-Cost Capital Available to CDFIs at 2 Percent Rate**
- **Increase the Maximum Amount of Capital Available to CDFIs**
- **Provide Capital from Treasury to Match Private-Sector Investments**

Today, in conjunction with a meeting between Secretary Geithner, Members of Congress and other leaders in the CDFI community, the Treasury Department is announcing final terms for this new program. These terms – developed following extensive consultation with small businesses and CDFIs across the country – include enhancements that will help better support CDFIs and make credit available to small businesses looking to expand and create jobs.

Key Enhancements to the Program

1. **An Increase in the Maximum Amount of Capital Available to CDFIs – Strengthening the Program's Ability To Support New Lending:** While the program initially outlined in October limited the amount of capital CDFIs could apply for up to 2 percent of risk-weighted assets, the final terms will allow institutions to apply for Treasury investments of up to 5 percent of risk-weighted assets – significantly increasing the potential impact on lending in low-income communities. (Credit unions can apply for an equivalent amount of total assets.)
2. **Program Will Expand the Number of Eligible Institutions By Allowing CDFIs to Receive Capital from Treasury Matched to Private Investments:** Consistent with standards Treasury has put in place to ensure TARP funds are used in a way that promotes financial stability and protects the taxpayer, CDFIs will need approval from their regulator to participate in this program. For CDFIs that might not otherwise be recommended for participation by their regulator, Treasury will offer matching capital investments, up to 5 percent of risk-weighted assets, against private investments on a dollar-for-dollar basis, provided that the combined amount would return the institution to a viable position. This enhancement will allow the program to reach a broader range of institutions serving vital needs in their communities while protecting taxpayer interests.

How The Program Works – Key Terms

- **Capital Will Be Available to CDFI Banks and Thrifts at a 2 Percent Rate:** As the President announced in October, CDFI banks and thrifts will be eligible to receive investments of capital with an initial dividend rate of 2 percent, compared to the 5 percent rate offered under CPP. CDFIs will be able to apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under CPP.
 - **CDFI Credit Unions Will Be Eligible Under Initiative Designed to Meet Their Specific Structure:** CDFI credit unions can apply for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts and with similar terms. These institutions may apply for up to 3.5 percent of total assets – an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts.
 - **Matching Capital Will Allow More CDFIs to Become Eligible for the Program:** In cases where an institution might not otherwise be approved by its regulator, it will be eligible to participate so long as it can raise enough private capital that – when matched with Treasury capital up to 5 percent of risk-weighted assets (RWA) – it can reach viability. The private capital must be junior to Treasury's investment.
- o **Example:** A CDFI is currently deemed to require additional capital equal to 4 percent of risk-weighted assets to reach the standard set by its regulator. If the CDFI can raise 2 percent risk-weighted assets from private investors, Treasury would match that with 2 percent risk-weighted assets to meet the viability standard.
- **CDFIs Already in TARP Will Be Allowed to Transfer Capital Into the New Program:** To provide equitable treatment for CDFIs that have already received TARP funding, CDFIs that participated in the CPP will be eligible to transfer those investments into this program.
 - **CDFIs Will Not Be Required to Issue Warrants:** Consistent with the *de minimis* exception under the Emergency Economic Stabilization Act of 2008, CDFIs will not be required to issue warrants – removing a possible barrier to participation.

What is a Community Development Financial Institution (CDFI)?

A certified CDFI is a financial institution that works in markets that are underserved by traditional financial institutions. CDFIs are certified by the Department of the Treasury's CDFI Fund, which was created for the purpose of promoting economic revitalization and community development in low-income communities. CDFIs offer a wide range of traditional and innovative financial products and services designed to help their customers access the financial system, build wealth and improve their lives and the communities in which they live. To be certified as a CDFI, an organization must demonstrate that it meets each of the following requirements:

- Be a legal entity at the time of certification application;
- Have a primary mission of promoting community development;
- Be a financing entity;
- Primarily serve one or more target markets;
- Provide development services in conjunction with its financing activities;
- Maintain accountability to its defined target market; and
- Be a non-government entity and not be under control of any government entity (Tribal governments excluded).

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