A Path to Conventional Equity for CDFIs

CDFI Equity Project Report

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Summary

Vision

For CDFIs

A Community Development Financial Institution (CDFI) is approaching its maximum leverage covenant and needs equity in order to make new loans. It decides to obtain equity from a new equity fund designed specifically for CDFIs. The CDFI can obtain equity by selling any amount of its old or new loans to a for-profit subsidiary which it owns and manages. The equity fund for CDFIs invests equity in the for-profit subsidiary which is upstreamed to the CDFI. Key features are:

- The subsidiary is 100% owned by the CDFI, the loans remain on the consolidated CDFI balance sheet, and the loans are administered by the CDFI.
- The subsidiary is capitalized in part by issuing preferred equity which is purchased by the equity fund. The equity fund provides the preferred equity at a rate of 20 cents on the dollar per CDFI loan sold to the subsidiary. The Fund is capitalized from common and preferred equity from outside investors.
- The CDFI has delegated authority to select the loans it sells to its subsidiary, so there is no time lapse or paperwork burden associated with equity fund or investor approval.
- When the CDFI sells its loans to the subsidiary, it upstreams the proceeds from the fund to the CDFI.
- The CDFI sells loans to its subsidiary and receives the cash and equity at the end of each quarter.
- The CDFI uses equity cash from its subsidiary to capitalize the origination of new loans.

The CDFI receives the proceeds from the preferred stock investors through the equity fund. The fund is a platform shared with other CDFIs. However, each CDFI's relationship to the equity fund is direct and discreet. There are no joint and several obligations with other participating CDFIs, no pledge of collateral, and no claim on the CDFI assets. While there are financial constraints on the subsidiary, there are no constraints imposed on the CDFI. The process increases liquidity and decreases consolidated leverage for the CDFI, which enables it to accelerate the growth of lending and services to the communities it serves.

For Lenders and Investors

The investor in the preferred stock of the CDFI subsidiaries is a newly created equity fund. It is an intermediary platform that aggregates the loan portfolios of the CDFI subsidiaries, and monitors, manages and remediates them. The equity fund raises bank debt and preferred stock from conventional lenders and preferred stock investors. The equity fund's common stock is sourced from institutional and philanthropic investors on a concessionary basis. The concessionary common stock enables the platform to lower the yields and lessen the liquidity constraints on the CDFI subsidiary preferreds in which it invests. As a result of the structure of the equity fund, its monitoring and portfolio management technologies, and the economies of scale, the common stock achieves market (non-subsidized) attributes over time. The banks, preferred investors, and the common investors all get the benefit of market returns while providing essential mission capital for the public good.

Purpose of this Report

This Report is designed to serve the CDFI sector as a step-by-step blueprint for accessing private equity in Stage One and conventional equity in the public market in Stage Two through participating CDFIs. In addition to providing a blueprint, it documents the affirmation that a portion of CDFI equity can be—and should be—self-sustaining. It also demonstrates how this equity can be widely accessible by the broader CDFI industry over time.

Background

CDFIs

CDFIs have been lending and investing in low-income communities nationally for over 30 years. The 1,300 CDFIs certified by the CDFI Fund at the U.S. Department of the Treasury have total assets under management of $228 billion. They have established an impressive track record. CDFI performance over the period has been characterized by sound lending, low loss rates, and relatively low leverage—all of which contribute to their low risk financial profile. Over multiple economic and financial cycles, CDFIs have shown a tendency toward counter-cyclicality in terms of demand: in down-cycles, the need for their services accelerates as gaps in credit availability expand and capital availability decreases. The quality of CDFI performance has been recognized in the bond markets where 11 large CDFIs benefit from investment grade ratings by the major rating agencies. Two CDFIs have ventured into the equity markets by issuing privately placed preferred and common issues. This represents material progress. However, the CDFI industry as a whole would be able to grow, expand lending capacity, and serve low-income communities and constituencies much more effectively if CDFIs could access equity from the conventional public equity markets. This is not currently possible due to a series of mostly technical market factors (see *Appendix A. Obstacles to the Capital Markets*). If these technical factors could be addressed, conventional equity investors would be presented with an excellent opportunity to invest in well managed and strong performing loan portfolios that generate cash returns and experience steady and stable growth. There would be the additional benefit of providing essential investment to low-income communities, businesses, and individuals, and aligning with federal efforts on behalf of these constituencies.

This proposal takes a segment of the CDFI industry—non-profit loan funds with approximately $15 billion in assets on the balance sheets—and tackles each of the technical obstacles. Successfully implemented, the effort would result in direct access to the public equity markets on an unsubsidized basis, and open the equity door to smaller and newer CDFIs, and eventually a large segment of CDFI banks and credit unions.

The Need for Equity

The motivation for forging a path to public equity markets came from a discussion with a group of CDFI leaders at the Opportunity Finance Network's (OFN) conference in 2018. In order to serve the low-income communities and constituencies more comprehensively, the CDFI industry needed to raise much more equity capital. The industry was materially dependent on public sector funds, particularly the CDFI Fund. In reviewing the latest data from AERIS (the independent entity that provides ratings on financial condition and impact for CDFIs), there was clear evidence of the strain. During the years 2013-2017, a comparison of (i) net asset and leverage ratios for all CDFIs reporting to the AERIS Cloud; and (ii) total assets, net assets and leverage ratios for CDFIs > $100 million in assets, showed a clear decline in net asset ratios and a notable rise in leverage. This aggregate trend reinforced the need for more equity capital in the CDFI industry, and together with widespread anecdotal evidence, it supported the effort to gain access to the public equity markets.

The constraints on grant funding have subsequently eased for many in the CDFI sector, but, at the same time, inflation, higher interest rates, higher rents, and other economic factors have increased the challenges of low-income constituencies nationally. In order to keep up with the growing capital needs of low-income homeowners, renters, small businesses, and communities, CDFIs still need to expand the range, magnitude, and sustainability of the flow of equity.

Why Not?

The CDFIs lend in a low-income environment using their presence, access, counseling, and patient capital to help their customers succeed. Notwithstanding the challenges of low income, low growth, and idiosyncratic small ticket items, CDFIs produce high quality lending metrics. This performance begs the question: in a world in which credit card receivables—and even foreign trade receivables!—can be aggregated, segmented, securitized, and sold into the public markets, why can't CDFI credit attract investor interest? ?

The biggest step CDFIs can take toward accessing the public markets is to aggregate loans into a portfolio. That portfolio would be significantly less risky and less volatile than either credit cards or trade receivables, and cost less from an operational standpoint. An aggregated portfolio of CDFI loans would be of high credit quality, stable growth, robust cash flow, and steady, if modest, profitability.

Of course, if CDFIs can attract debt, why not attract equity? In a world of SPACs, Gamestops, and AMCs, why not invest in something that is backed up by genuine earning assets that are seasoned with a track record? *Why not create an aggregate CDFI portfolio and an intermediary platform that is so well capitalized that the over-collateralization is self-evident?* Such a platform would not only help the CDFIs achieve economies of scale, but it would enable them to preserve their individual differences and unique strategies consistent with the markets and communities they serve. They would be able to continue their organizational level policies and procedures, while presenting a standardized market-compatible set of policies and procedures to the investor. And why not use this platform to do more than just channel equity into the CDFI sector? Why not have it make equity available on a flow basis *and* enable CDFIs to operate *without* restrictions or the burden of submitting their loan originations to a second opinion? Wouldn't it be helpful to their low-income constituencies to have the same access to capital and discretion in the use of funds as conventional lenders enjoy?

Origins of the CDFI Equity Project

The CDFI Equity Project ("Project") was funded in 2020 by JPMorgan Chase, the Rockefeller Foundation, Goldman Sachs, and Deutsche Bank. The Project was based on concepts of aggregation, portfolio analysis, and linked financing structures discussed at the Financial Innovations Roundtables and developed by the Center for Impact Finance. Ten CDFI loan funds participated in the project: Capital 4 Change, Capital Impact, Chicago Community Loan Fund, Craft 3, Local Initiatives Support Corporation, Low Income Investment Fund, New Hampshire Community Loan Fund, Opportunity Finance Network, Pacific Community Ventures, and ROC USA. The law firm of Orrick, Herrington, & Sutcliffe and the accounting and advisory firm of CohnReznick provided valuable advice on the development of the proposals on a pro bono basis. AERIS provided access to its financial spreads on a pro bono basis. AERIS disclosures were approved by each of the CDFIs.

Concept

Project Objective

The objective of the CDFI Equity Project was to create an equity Platform that raises common and preferred equity in the capital markets and uses the proceeds to provide preferred equity to a pool of aggregated CDFI loans. The aggregated CDFI loans would remain on the balance sheets and under the control of the CDFIs that originate and service them, but they would have the benefit of true equity available on a flow basis.

Aggregating the CDFI Assets for Equity Funding

The purpose of the Project was to design a blueprint that aggregated CDFI loans and provided equity to a group of CDFIs. Solicitations to participate in the design were made to 15 CDFIs. Selections were made on the basis of the quality of their operations, their financial and impact performance, and their interest in raising equity. The process of developing the blueprint involved the following:

1. *Survey.* The participating CDFIs submitted a four-page Survey that resulted in collection of information and data on (i) their current portfolios, funding mechanisms, and financial statements; (ii) the unit cost of their origination and lending activities; and (iii) 10-year forecasts of how the CDFIs expected to use the proposed facility by type of loan, rate, term, and attributes of their borrowers. The responses from the Survey populated the individual and aggregated fields in the "Roll-Up" software.
2. *Roll-Up Software*. As part of the CDFI Equity Project, software was developed to facilitate the aggregation and segmentation of the CDFI lending assets. Called "Roll-Up," the software captured the loan purchase activity of each CDFI's new program-created Special Purpose Vehicle (SPV) on a loan-by-loan basis and rolled it up into: (i) complete financial forecasts of each SPV; (ii) a financial forecast of the aggregate SPVs; and (iii) a complete financial forecast of the proposed equity Platform. The software was set up so that the finance staff at the participating CDFIs—and also at the equity Platform—could run scenarios based on actual loans for the purpose of generating budgets, forecasts, scenario development, stress testing, and financing strategies.
3. *Segmentation.* The CDFI loans that were capitalized by the process had to be mission-based loans to low-income individuals, businesses, and communities. The loans could be existing or newly originated by the CDFIs and could be of any purpose, rate, term, or underwriting standards agreed to by the stakeholders. The loans fell into six general classes: Single Family Residential, Multifamily Residential, Small Business, Community Facility, Commercial Real Estate, and Other (principally, lending to other CDFIs). These loans were automatically segmented by originator, location, asset class, rate, term, key underwriting attributes, borrower credit, and other criteria for the purposes of portfolio management and funder requirements. This was accomplished through the financial modeling (Roll-Up) software. The data were all posted to the Roll-Up, which was the source of the budget/actual data for portfolio management reporting.
4. *Aggregated CDFI Portfolio.* The primary forecast from the Surveys showed: $964 million in SPV portfolio loans outstanding in the 10th year, on $1.95 billion in loan volume over the 10-year period. The initial breakdown of the portfolio by asset class was: Single Family-0%, Multifamily-53%, Small Business-18%, Community Facility-6%, Commercial Real Estate-17%, and Other (primarily loans to CDFI organizations)-6%. The average size of the loans being funded was initially $841,000, the average term was 107 months, and average fees at closing amounted to $15,400.

True Equity for the CDFIs

Preferred stock is the most suitable form of equity for CDFIs due to (i) modest asset growth expectations; (ii) minimal investor voting rights; (iii) fixed and established dividend rate; (iv) flexible terms and conditions; (v) 25-30-year term, with modest mandatory redemption provisions, plus the potential for non-cumulative and perpetual terms; and (vi) extensive use by financial institutions engendering familiarity among investors.

Preferred stock could be the optimal way to open the door to the capital markets. Once the preferred stock instrument achieves an investment grade rating, access to capital for CDFIs could expand broadly in both the public and private preferred and common equity markets.

Stakeholder Objectives

The objectives of the three key groups of stakeholders can be summarized as follows:

Participating CDFIs

1. Obtain true equity on a flow basis.
2. Minimize cost.
3. Minimize investor discretion in management of the CDFI and of the CDFI lending activity while providing investors sufficient comfort in the credit quality of the lending activity.
4. Do not tie individual CDFIs to the funding platform or to the other fellow participants by way of joint and several obligations.
5. Delegate lending authority to the participating CDFIs so that they do not have to absorb the time and cost burden of getting the loans authorized or approved in advance by the investing party.
6. Avoid additional pledging of assets and balance sheets to lenders or investors.
7. Facilitate larger CDFIs in going directly to the conventional capital markets for equity when they achieve sufficient scale.
8. Expand the platform to include smaller CDFIs and depositories as the platform achieves scale and market reputation.
9. Develop data and analytical tools that assist (a) CDFIs in managing portfolio risk; and (b) conventional investors in investing in CDFI assets knowledgeably.

Preferred Equity Investors achieve the following objectives:

1. Have a conventional obligor that can be easily analyzed.
2. Have an identifiable and credible source of payout.
3. Achieve a market rate return for the comparable risk.

Common Equity Investors achieve the following objectives:

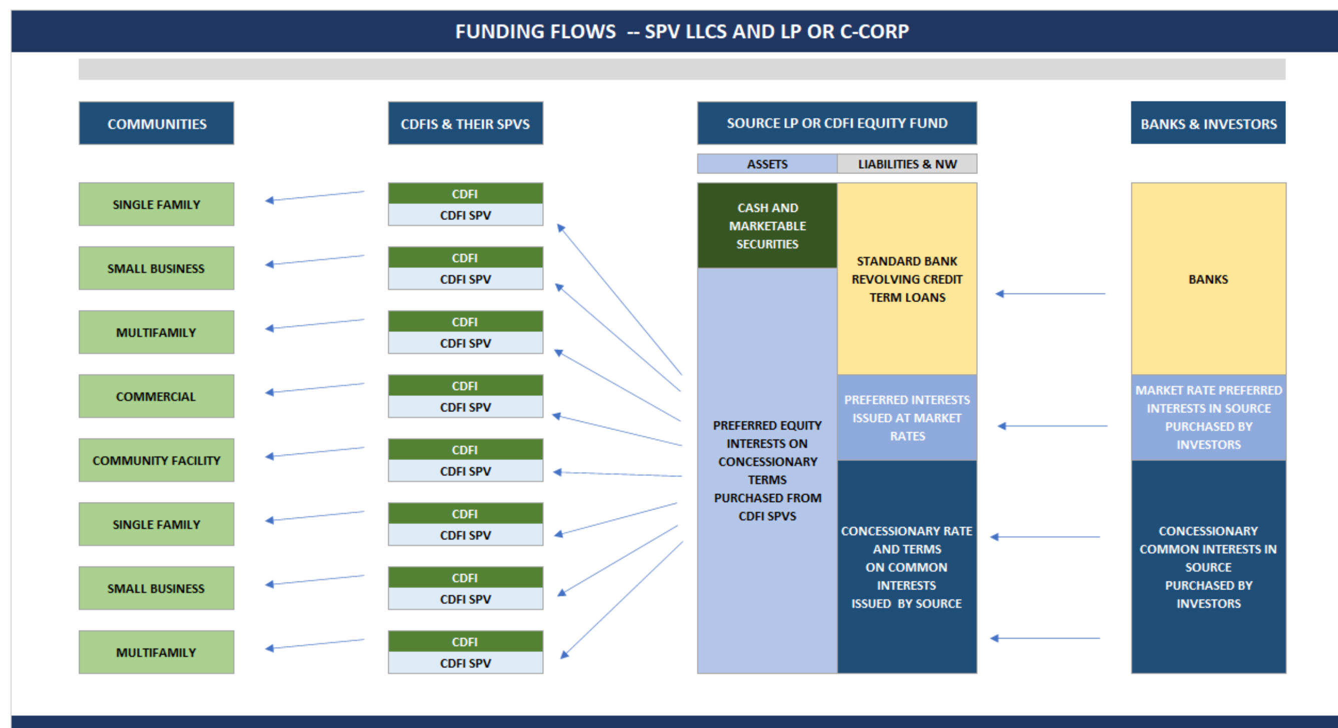
1. Leverage their philanthropic or below market capital that is already out in the marketplace by way of investments that generate returns, potentially at market rates.
2. Provide CDFIs with true unrestricted equity.
3. Provide equity on a sustainable "flow basis" to qualified CDFIs for the purpose of helping capitalize their lending activity.
4. Expand the range of equity investors in CDFIs and the magnitude of investment by way of facilitating common stock issues in the public market.
5. Eliminate subsidy (concessionary yields on the common interests) by raising dividends and/or asset appreciation over time to market levels, as financial performance warrants.

Structure

In response to the stakeholder objectives, the Project developed a two-part structure:

1. Part 1: each CDFI creates a 100% owned for-profit special purpose vehicle (SPV) for the purpose of receiving cash in the form of preferred equity. This concept is not new or unfamiliar to the CDFI field. Many CDFIs already allocate their lending assets to separate and discrete lending entities that they control; and they do it precisely for the purpose of gaining access to lower cost financing. In this case, the CDFIs would be setting up the SPVs not only to receive and upstream the equity cash, but also to retain control of the loans on their consolidated balance sheet. The SPVs upstream the cash to their CDFI parents as part of the purchase price of the loans their parents are selling. The CDFIs can use the proceeds from the SPV preferred equity to capitalize new loans in their communities.
2. Part 2: an equity fund ("Platform") is created that raises equity from public and/or private investors and uses the proceeds to purchase the preferred equity issued by the SPVs. The Platform is capitalized with (i) market-rate bank debt and bonds; (ii) market-based investment grade "plain vanilla" preferred stock; and (iii) concessionary common stock. The proceeds of the funding from the lenders and the investors are used by the equity Platform to invest in preferred stock (or units) issued by the CDFI SPVs.

The chart below shows how the funds flow: (i) from the conventional lending and investing public onto the Platform; (ii) from the Platform into the CDFIs; and (iii) from the CDFIs to the communities they serve:



The Structure of the CDFI SPV

As part of the program, each CDFI creates an SPV which serves as the for-profit entity that issues the preferred equity and receives the cash.

The SPV has the following key attributes:

1. There is an operating agreement between the CDFI parent and its SPV that governs the lending and administrative operations and transactions between the CDFI and its SPV. The CDFI appoints the leadership (executive director and/or general or managing partner), identifies staff, outlines authorities, and conducts oversight via a structure determined by the CDFI.
2. The originating, servicing, and administrative functions are conducted by existing CDFI staff in the normal course of business. The costs incurred in their SPV activities are identified and reimbursed to the CDFI on a reasonable and consistent basis using established agreed upon terms and requirements.
3. There is a modest set of additional costs associated with the SPV, primarily in the form of auditing and legal services, oversight, and meetings.

In order to assure stability, consistency, and organizational value retention, the SPV works within specific financial guidelines:

1. The SPV is restricted to purchasing loans originated by the CDFI, and the loans represent at least 95% of SPV assets.
2. SPV preferred equity is not to exceed 20% of total SPV loans.
3. Total preferred and common equity of the SPV is not to be less than 30% of total SPV assets, and common equity of the SPV is not to be less than 50% of the SPV preferred equity outstanding.
4. The SPV has a direct and discreet relationship with the equity Platform: There are no joint and several obligations with other participating CDFIs or their SPVs. There is no pledge of collateral.

In order to reduce the cost of underwriting, administration, and fund-raising, the CDFI is awarded delegated authority to sell loans and the SPV has delegated authority to purchase and fund loans: the loans it purchases are funded in part by the issuance of SPV preferred equity which is automatically purchased by the Platform at a rate of 20 cents per dollar of loan. Operations are conducted as follows:

1. The SPV purchases loans originated and selected by the CDFI at face value on an arms-length basis. Purchases are made once each quarter.
2. Platform purchases of SPV preferred units are performed quarterly at the same time the SPV purchases the CDFI loans.

In addition to the upstreaming of the proceeds to the preferred equity and the reimbursement for operational expenses, the CDFI may take distributions from the SPV as long as the minimum equity percentages are maintained (see Risk Management below). It is essential to remember that the creation of the SPV is specifically for the purpose of channeling equity into the non-profit CDFI loan fund. It is effectively, start to finish, a series of paper—or more accurately stated, electronic—transactions.

The Structure of the Platform

Note: the terms and rates below were drawn from market research conducted during 2020-2021 on preferred stocks in the banking industry, mortgage REITs, and private funds for subordinated and quasi-equity vehicles. The terms and conditions were not proposed to investors at the time. They do not reflect current conditions; they are shown here as examples of how the Platform works.

The Platform is structured to be attractive to the lenders and preferred investors at inception. It is over-capitalized, highly liquid, and pays *interest* and *preferred* dividends at a higher rate than warranted by the risk. This is due to the need to minimize the risk profile associated with a start-up equity fund for lenders and investors.

The common equity *interests* (instead of stock when the platform is an LP) of the Platform are initially provided by private investors on concessionary terms—specifically, a low dividend yield and no liquidity over the short- to medium-term. Because of the size of the common equity on the balance sheet (never less than 40% of total assets), these concessions enable the Platform to accomplish two critical objectives: (i) adjust yields and redemptions lower for the SPV preferreds to better suit the needs of the CDFI constituencies; and (ii) adjust yields and redemptions upwards to suit the risk/reward appetites of the investors in the Platform preferreds. This positive mediation between the requirements of public market investors (which the Platform engages) and the financing needs of low-income constituencies (which the participating CDFIs engage) is one of the chief benefits of the proposed structure. It is the central mechanism by which investor constraints are converted into patient capital for CDFIs, *and it is the primary innovation of this proposal.*

How the Equity Platform Intermediates for the CDFIs

The chart below demonstrates the manner in which the Platform mediates the needs of investors and the needs of CDFIs by comparing the terms and conditions of the preferred equity issued by the Platform to the preferred equity the Platform purchases from the CDFI SPVs:

INVESTOR RISK:	ON SOURCE PREFERRED	ON SPV PREFERRED
Investor is:	Accredited or Institutional Investor	The CDFI Equity Source
Yield	6.00%	6.00%
Cumulative/Non-cumulative	Cumulative	Cumulative
Redemption / Repurchase	5% Quarterly starting in 1Q Year 2	10% every 5 years
Minimum Common Equity Cushion	0%	0%
Minimum Cash % to Total Assets	15.00%	2.00%
Minimum Cash % to Total Debt	33.00%	3.00%

The crucial fact here is that the Platform pays investors the same rate on its preferred interest as the SPVs pay the Platform on their SPV preferreds—6%. Though distributions on both are cumulative, the Platform must redeem its units at a rate of 5% per quarter or 20% per year to ensure liquidity for its private investors. However, because the bulk of the Platform funding consists of common equity interests on concessionary terms, the platform can purchase preferred interests from the SPVs that require redemptions of only 10% every 5 years. Bottom line: the preferred equity that the CDFI SPVs get is more patient than what the Platform obtains.

This crucial support mechanism is designed to decline in applicability as the quality and track record of the SPV loan and preferred portfolio performances are demonstrated: the more tested the assets and the model, the less the over-capitalization and liquidity constraints are required by investors. One of the main reasons that the investment grade ratings on the Platform preferreds is a primary objective is that the rating will lower the cost of the preferred, and free the Platform from the tight liquidity (redemption) requirements. Together with the lower unit cost of operations, this will (i) spark an improvement in margins, (ii) enable the Platform to raise the common dividend, and (iii) enable the Platform to enhance profitability by moderately leveraging with less expensive bank debt. Once the Platform common achieves the standards needed to be issued in the public market, it is possible for the CDFI SPVs to obtain or issue non-cumulative perpetual preferred stock on a flow basis.

Two Stages of Development

Challenges

The initial design of the Platform called for a corporate ("C-Corp") or beneficial corporate Platform that would aggregate CDFI assets, and segment them in such a way as to attract public investors. It would be capitalized with (i) concessionary common stock and (ii) market-based investment grade standard preferred stock sourced from the public markets. The 100% owned CDFI SPVs would also be C-Corps. The whole focus of this structure was to enable the CDFI sector to obtain access to the public market *in preferred stock, which numbers in the $250 billion range*. Once rated, "plain vanilla" preferred stock would be routinely accessible to CDFIs through the kind of platform proposed here, and the consequent capacity to issue common equity at a market rate on a flow basis would be possible and sustainable. Access to the trillion-dollar common stock market is the ultimate objective.

At present, however, there is a major hurdle to accessing the public markets: Investors need to see data on how an aggregated portfolio will perform in terms of usage and growth as well as credit risk—and they need to value CDFI loans, loan portfolios, and assets in the context of equity risk. This data must be developed. In order to address these needs, the initial concept of a C-Corp platform has been altered to take an interim step: *Stage One*. Stage One involves (i) creating a limited partnership for the intermediary platform instead of a C-Corp, and (ii) raising equity through a set of private placements instead of public stock issues. A new Limited Partnership, the CDFI Equity Source **("Source LP")** will be established. It will provide CDFIs with preferred equity, while additional steps are taken to clear the path to the public markets. *Stage Two* begins when the Stage One Source LP's preferred equity has demonstrated a performance track record that warrants an investment grade rating from established credit rating agencies, and the underlying loan portfolios and SPV performance are likewise validated. This could be accomplished within 5 years, but it should certainly occur within ten years. At this point, a C-Corp., the CDFI Equity Fund **("CDFI Equity Fund"),** will be incorporated which will proceed to be capitalized with common and preferred stock at market rates and with market terms. It will either purchase the assets of the Source LP or, if the owners of the Source prefer to keep Source LP, launch an entirely new portfolio with existing and/or new CDFI participants.

Strategy

This proposal embraces an interim structure that calls for a Limited Partnership at the Platform level (Source LP) that is capitalized in the private market instead of a C-Corp capitalized in the public market. The four key components of the strategy are:

1. The Platform invests in the preferred units issued by the CDFI SPVs. The preferred units issued by the SPVs carry more flexible terms than the preferred units issued by the Platform which are purchased by private market investors.
2. In order to obtain an investment grade rating for its preferred units (or their equivalent), the Platform demonstrates the quality of CDFI credit to potential public as well as existing private investors. This is accomplished through: (i) the performance of the market-based preferred units it issues to private investors; (ii) the performance of the flexible preferred units the CDFI SPVs issue that are purchased and managed by the Platform; and (iii) the performance of the aggregated CDFI portfolio the CDFIs manage on behalf of their SPVs.

3. By using up-to-date market research, asset segmentation, and risk management technologies, the costs of running the Platform drop relative to the size of the portfolio. This enables the concessionary common equity of the Platform to raise dividend rates to a market level over time.
4. At or near the point at which an investment grade rating can be arranged for the Platform's preferred equity, Platform management begins demonstrating the potential for market rates and terms on the common by raising the common dividend. When the dividend and rate of growth reach market acceptable levels, most (if not all) of the SPV funding activity moves from the LP to a C-Corp capitalized entirely in the public market. The range and type of CDFI participant is expanded.
5. When CDFIs achieve sufficient scale, they can individually issue preferred stock similar to that of the Platform directly to the public market.

Capitalization

No similar kind of transaction has been identified that can be used as a basis for establishing precise structure, terms, and pricing. However, project finance for infrastructure provides a good model. The CDFI Equity Project proposal calls for 3 sets of discreet sources of funding. The structure, terms, and pricing of these can be altered over a period of time depending on the outcomes of the first stage and achievement of specific objectives.

1. The *bank debt* should be relatively easy to arrange as it carries market rate and terms, and banks are already familiar and experienced with CDFI assets and operations.
2. Obtaining investment grade *preferred stock* from conventional public investors and calibrating it for CDFIs is the chief strategic objective. The chief challenge is getting an investment grade rating. Generating performance data is the key to that. In the interim, preferred funding can be arranged in the private market, albeit with higher rates and strict liquidity requirements.
3. The key to the success of the Platform is the *common equity support*. In order to make the preferred equity that the Platform issues attractive to conventional investors, it is necessary to have the common equity carry rate and liquidity concessions for a number of years. Solicitation for the initial common equity will be primarily among foundations and institutional investors known to the CDFI industry. These investors will be motivated by a desire to prime the pump for independent and sustainable equity growth for the CDFI industry. They will also be motivated by the potential for a market return on a low risk highly valuable public mission. Under the current scenario, the common equity is designed to accomplish market rates and terms over time—prospectively within 5-10 years.

The optimal approach would be to arrange at inception facilities that fund the minimum sustainable size of the Platform—$100 million. A stack of 50/10/40 in common/preferred/bank debt presents a reasonable starting point. Since the biggest variable for the Platform is the extent to which the CDFIs will use it, commitments from the CDFIs must be arranged. Commitments to sell more than a set minimum of loans to their SPVs over a 2-3 year period will largely govern the magnitude of the financing at inception.

Outcomes

The data used to produce the pro formas on which these outcomes derive primarily from the Surveys each participating CDFI submitted for the project (see the Survey section below). Additional information was drawn from annual reports, audits, and discussions with the CDFIs. The data were input to software that was developed for the purpose. The software builds a ten-year forecast loan-by-loan by CDFI and rolls it up into an aggregate

loan portfolio for the CDFIs and an aggregate preferred equity portfolio for the Stage One and Two platforms. It also provides full pro forma financials for each CDFI SPV and both Stages of the platform. (See “Roll-up” in Software section below.)

Outcomes for the CDFIs

The forecasts and underlying assumptions of the portfolios in both Stages can be summarized as follows:

1. Stage One Source LP:
    - $1.95 billion in community development loans sold to the SPVs over ten years by their CDFI parents. These are capitalized by over $200 million in equity provided by the Source LP.
    - $964 million in outstanding loans at the end of the 10th year, capitalized by $175 million in equity provided by the Source LP (there is a $25 million redemption event). The $200 million enables the 10 CDFIs to finance, originate, and manage these loans on only $100 million of their own equity. They are able to leverage their CDFI investment in the SPV at a rate of 8.7:1, while maintaining a leverage of approximately 2.01:1 for the SPV and lowering their own consolidated leverage.
2. Stage Two CDFI Equity Fund:
    - $4.64 billion in community development loans sold to the SPVs over ten years. These were capitalized by over $420 million in equity provided by the Source LP.
    - $2.10 billion in outstanding loans at the end of the 10th year, capitalized by $420 million in equity provided by the Source LP. The $420 million enabled the 10 CDFIs to originate and manage these loans on only $216 million of their own equity, leveraging their CDFI investment in the SPV—at a rate of 8.6:1, while maintaining a leverage of under 2.04:1.

Capital grants already made by philanthropy that can be allocated to the SPV are effectively leveraged: for every dollar of capital grant, the CDFI can get two dollars of new equity.

Opportunities for Lenders

1. Stage One Source LP
    - A 3-Year Revolving Credit / 5-Year Term Loan reaching $75 million by the 10th year. LIBOR+250
2. Stage Two CDFI Equity Fund
    - A 3-Year Revolving Credit / 5-Year Term Loan reaching $93 million by the 10th year. LIBOR +150
    - $140 million bond issue at 10-year Treasury +250

Opportunities for Investors

1. Stage One Source LP
    - SPV Preferred Units: cumulative, redemptions, 6.0% dividend/distribution rate. Purchased by the Source LP.
    - Source LP Preferred Units: cumulative, redemptions, 6.0% dividend/distribution rate. Purchased by private investors.
    - Common Units: Dividend/Distribution average 3.19%.
    - Rate of Asset growth: Average 27% per year.

2. Stage Two CDFI Equity Fund
    - SPV Preferred Stock: non-cumulative, perpetual, 6.5% dividend. Purchased by the CDFI Equity Fund.
    - CDFI Equity Fund Preferred Stock: A-rated, cumulative, perpetual, 5.0% dividend rate. Purchased by standard preferred stock investors in the public market.
    - Common Stock: Dividend rates average 3.63%.
    - Rate of growth: Average 18% per year.

Outcome for Lender and Investors

The intermediary platform becomes self-sustainable in the marketplace.

1. Bank debt is market rate from day one of Stage One.
2. Preferred units are market rate from day one of Stage One.
3. Common units are concessionary in Stage One and market rate in Stage Two.

Outcome for the CDFI Industry

The initial clients for this equity platform are larger, high quality non-profit CDFI loan funds, all positively rated by AERIS. A successful launch and operation of the equity Platform would enable expansion to all CDFIs *including for-profit and depository CDFIs.*

Section I. Outline of the Project

Project Tasks

The Project was conceived in 2019, when the prospects of future funding levels for CDFIs appeared to be diminishing in the face of rising mission needs and community demand. There was a clear need for a financial solution at scale. The key question was: if the industry needs size and sustainability, how does it get to the conventional investors in the public equity market?

The Project began in earnest in the first quarter of 2020. The first step was to enlist 5-15 CDFIs that had high AERIS ratings. All but one of the CDFIs that expressed interest was rated highly by AERIS, and the one that was not rated, was rated subsequently during the period of the study. The Project took the following steps:

1. Solicit objectives and buy-in from the CDFIs.
2. Research the optimal structure for raising equity in the public markets for an at-scale intermediary platform.
3. Create a Survey that enables the aggregation of CDFI loans over a 10-year period on the platform.
4. Create software that can (i) perform forecasts for the individual CDFI SPVs as well as the intermediary platform, and (ii) segment the respective portfolios over ten years by asset class, loan terms, and credit indicators for the purposes of portfolio management and financing at both levels.
5. Develop the operating structure of the equity Platform.
6. Develop the operating structure of the CDFI SPVs.
7. Develop the transactional policies and procedures for the Platform and the SPVs.
8. Run the software under multiple scenarios to determine feasibility and the optimal capitalization for CDFI SPVs and for the equity Platform under current market conditions.
9. Research and discuss rates and terms with legal, accounting, and investment professionals.
10. Discuss the Project with rating agencies.
11. Produce discrete forecasts and cases for each participating CDFI.
12. Work with the CDFIs on the forecasts and develop cases that show how the structure increases loan volume, revenues, and surpluses while increasing cash and capital, and lowering overall leverage.
13. Research performance and market valuations of CDFIs.
14. Develop automated procedures at the Platform and SPV level that minimize cost while facilitating access to the capital markets.
15. Ensure that all sources of financing become market rate (unsubsidized) and self-sustaining over time.

Discussions were conducted with S&P, D&B, AERIS, and potential institutional investors. The CDFI Fund at the Department of Treasury was engaged in discussion about investing as well as in research on the CDFI sector. A potential General Partner was identified in the Community Development Venture Capital Alliance.

For summaries of tasks and objectives, please see the quarterly Project Updates and Outlines, and the Annual Reports in Exhibit 1.

The Survey

Survey

In order to understand the magnitude and nature of the need for capital among the CDFIs, a survey was developed. The following Survey was sent to the participants in April of 2020. Following discussions with each of the CDFIs, the data were input to the software ("Roll-up"). An analysis of each of the CDFIs was conducted using AERIS data to fill in any blanks. The use of the data was approved by each of the CDFIs.

The inputs from these Surveys together with the results of the analyses populated the Roll-up software which produced the portfolio and financial pro formas for the SPVs, the aggregate SPVs, the aggregate SPV portfolio, Stage One Source LP, and the Stage Two CDFI Equity Fund.

All of the Surveys were provided to the project on a confidential basis. The CDFIs have not been asked to update the Surveys since 2020, so the responses must be viewed as being specific to that time.

DATA REQUEST FOR DEVELOPING THE CDFI EQUITY FUND

PURPOSE — Once the data from this survey are collected we will produce a financial blueprint of the CDFI Equity Fund. The blueprint will use the (NeighborWorks America/UNH) Sustainable MIssion Program to produce a complete set of 7 year financial forecasts for the Equity Fund, plus each SPV and each participating CDFI in a Roll-up Program. There will be the capacity to run any scenario that participants wish to run for the purposes of determining optimal structure, pricing and volume. Upon establishment of the final scenarios by the participants, the same system will be used to forecast cash returns for preferred and common investors.

BEFORE FILLING OUT THE INFORMATION BELOW PLEASE NOTE THAT THERE ARE THREE SECTIONS. EACH SECTION ADDRESSES A DIFFERENT SET OF DATA:

SECTION I. — YOUR CDFI. We are looking for data that will give us an indication of what the financial benefit will be to you for participating in this equity program. In Section I we ask for data on your capital structure. To the extent possible the data should be derived from your most recent audit, and provided on a consolidated basis. There are also data that may not be available. Where this is the case

SECTION III. — CURRENT OPERATING EXPENSES FOR YOUR CDFI BY LOAN TYPE. In order to assure that this structure enables the CDFI to cover its lending costs we identify what it costs to originate and service loans . Feel free to make best estimates.

SECTION II. — THE PORTFOLIO YOU WANT TO CREATE FOR YOUR WHOLLY OWNED SPECIAL PURPOSE VEHICLE (SPV). The SPV is the vehicle by which you obtain the preferred stock. The preferred stock is true equity: the term will be in excess of 20 years, the dividends will be non-cumulative and there will be no restrictions on use. The preferred stock is subordinate to the bank debt on your loans. You can obtain this equity at a rate of 20% of the value of the loans in the SPV. The more loans you allocate to the SPV, the more equity

Most Recent Annual Audit Date

All of the fields below should come from the most recent fiscal year end for your CDFI on a **consolidated basis.**

Liabilities: Your CDFI
- $ Accts Payable — For all payables in the normal course of business and recurring: Consolidated CDFI
- $ Accrued Expense Payables — For all expenses in the normal course of business and recurring: Consolidated CDFI
- $ Operating Expenses

Type of Debt: Your CDFI — Amount — Avg Rate
- $ Short Term Bank < 2 yrs
- $ Long Term Bank > 2 yrs
- $ All Other Debt

The Avg. Rate (for this exercise): multiply debt by the interest rate for each borrowing, add the result, and divide total interest expense by total debt. See Example to the right. "All Other Debt" includes PRIs.

% Liabilities to Net Worth: Your CDFI — Total Liabilities divided by Total Net Assets for your Consolidated CDFI

% Unrestricted NW to Total NW: Your CDFI — Unrestricted Net Assets divided by Total Net Assets for your Consolidated CDFI

$ Total Assets: Your CDFI — Consolidated Assets

Avg Maturity of Debt (Years): Your CDFI — The Avg Maturity of Debt: Please use the simplified method to the right

Estimated need for new Equity: Your CDFI

2022	2023	2024	2025	2026	2027	2028	2029	2030

This is your estimated need for equity in each year including both operating and capital grants for your CDFI as a whole.

Example of calculation of Average Interest Rate

Debt Outstanding	Rate on Debt	Int Expense (Pro Forma)	Avg Interest Rate
$ 100.00	2.00%	$ 2.00	
$ 212.00	4.00%	$ 8.48	
$ 672.00	5.00%	$ 33.60	
$ 50.00	3.00%	$ 1.50	
$ 1,034.00		$ 45.58	**4.41%**

Example of calculation of Weighted Average Maturity

Debt Outstanding	Years to Maturity	Calculation	Avg Life in Years
$ 100.00	1.80	180.00	
$ 212.00	5.00	1,060.00	
$ 672.00	9.00	6,048.00	
$ 50.00	20.00	1,000.00	
$ 1,034.00		8,288.00	**8.02**

II. CURRENT OPERATING EXPENSES FOR THE CDFI PER LOAN TYPE

If you have hard data, please use it. Otherwise feel free to provide a reasonable estimate for each type of loan, i.e., Home mortgage, Small business, Community facility, Multifamily, Commercial/Development.

Number of FTE hours to originate 10 loans — How many hours of a a loan originator's time are needed to market, analyze, present and close 10 loans?

Average annual cost of 1 origination FTE — What are the estimated annual salary and benefits for your originators?

Do you service the loans you originate? — Yes or No

If serviced by another party, what do they charge? — This is a % of principal (i.e., 3/8%)

Number of FTE hours to service 50 loans — This is the number of hours per year that a loan servicing professional spends on 50 loans. It includes billing, collections, loan modification, workout. etc.

Average annual cost of 1 servicing FTE — What are the estimated annual salary and benefits for a loan servicer?

% Administrative FTE to lending FTE — Take the total number of lending and servicing FTE (by hours) for this type of loan product. Then estimate the number of administrative FTE by hours that are required to support their activity. Divide the administrative figure by the lending and servicing figure.

III. PROPOSED SPV PORTFOLIO DATA. Only include loans that you will put in your Special Purpose Vehicle for the purpose of raising equity.

Type of loan — **Check type**

- Home mortgage [ ]
- Small Business [ ]
- Community Facility [ ]
- Multifamily [ ]
- Construction/Development [ ]

Choose the type of loan you intend to allocate to the SPV. CHOOSE ONLY ONE. If you want to allocate more types of loans, please fill out an additional sheet for Section III for each type.

Existing or New Loans — Existing [ ] New [ ]

Put a 1 in the box that best suits your purpose. If you want to do both existing and new loans, AND THE TERMS ARE SUBSTANTIALLY DIFFERENT, please fill out an additional Section III sheet for the new loans.

Average size of loan [ ]

Estimates are fine here for existing as well as new loans allocated to the SPV.

Avg annual Interest Rate on loan [ ]

Estimates are fine here for existing as well as new loans allocated to the SPV.

Loan Maturity [ ]

Please state the maturity of the loans in months.

How is principal and interest paid?

- Fixed monthly payment [ ]
- Interest Only/Amortizing [ ]
- Bullet payment [ ]

Identify which one of these three loan repayment structures you plan to use for each of the types of new and existing loans that you will allocate to the SPV. If the loans are IO/Amortizing, please note the number of years on IO followed by the years of amortization.

Prepayment experience: what % of principal is prepaid over the life of the loan? [ ]

OK for estimates on both new and existing loans for the SPV. One way to estimate: the annual prepayment of loans as a percentage of the total loan balance of this type of loan at the end of the prior year. Another way to estimate: divide the previous year's loan balance by the prior year's principal repayments.

Origination fee % to principal [ ]

Input the percentage that is charged at origination for both new and existing loans.

	2022	2023	2024	2025	2026	2027	2028	2029	2030
# of this kind of loan originated per year that you will allocate to the SPV									
Avg annual delinquency rate									
Avg annual charge-off rate									
# of this type of loan originated per year for your CDFI as a whole, including loans allocated to the SPV.									

The inputs and content for all of the Project pro formas derived from these Surveys, the annual reports and/or audits of the CDFIs, and the AERIS spread(sheet)s.

The Software

Software

The inputs and outputs of the C-Corp version of the Roll-Up can be viewed in EXHIBIT 2. C-Corp Version 1 of the Roll-Up Software. The version for the LP is essentially the same but with adjustments for partnership structure and associated tax and dividend calculations.

A major focus of the CDFI Equity Project was the creation of a software platform called the "Roll-up." Based on the UNH Carsey School of Public Policy's Sustainable Mission (SMS) software, the Roll-up captures the lending activity of each SPV on a loan-by-loan basis, and rolls it up into: (i) complete financial forecasts of each SPV; (ii) a limited financial forecast of the aggregate SPVs; and (iii) a complete financial forecast of the Stage One Source LP and Stage Two CDFI Equity Fund platforms. It can also generate analytical reports that break down the loan portfolio by asset class, loan type, term, rate, lien position, and other features for the purpose of managing the portfolio.

A large number of scenarios was run on the Platform—for both the Source LP and the CDFI Equity Fund Stages—as well as on the individual and aggregate loan portfolios of the SPVs. Some general observations were forthcoming:

1. The optimal (stabilized) size of such a platform came in around $200 million or more in assets (SPV preferred equities), with anything under $100 million probably not working.
2. It is possible to run a leveraged Fund with a 50/50 split between bank debt and a combination of preferred and common interests that favors common at a rate of 2:1 over preferred. In the 2020-2021 rate environment such a structure would enable the bank debt and the preferred interest to be obtained at market rates, while the below market rate common could become market rate over time.
3. The use of a 70-20-10 Debt-Preferred-Common ratio for financing loans sold to the SPVs combined with an asset restriction (loans, cash, and marketable securities only) effectively controls the leverage and protects the SPV preferred from excessive risk.
4. The 20% maximum preferred interest advance to the SPV enables the higher cost of the preferred to have a lower impact on the blended cost of funds.
5. Changes in loan volume at the SPV level have a greater impact than changes in rate as do changes in the term and amortization of SPV debt.
6. In a C-Corp taxable environment, CDFIs can manage the profitability and the income tax without affecting the equity base of the SPV.

A limited version of the software was developed for each CDFI so that they could run "what-if" scenarios on their own. It took about an hour to go through the instructions and some dry-runs for the CDFIs who tried it. Their work was not visible to the Project team or to other participating CDFIs. It is all confidential. However, the individual blank software will be made available to the public.

Blank copies of the software for the full Roll-Up software for both C-Corporations and Limited Partnerships at the Platform level, with a range of options for the SPVs, will also be made available to the public.

The Equity Instruments

What kinds of equity are most suitable for the SPVs and the equity Platform?

For the Project, certain challenges had to be met:

1. How to attract equity investors to a de novo Platform investing in low-income loans originated by mission-driven non-profits.
2. How to simultaneously provide (i) equity to the SPVs at an affordable cost and with terms that suited their objectives; and (ii) issue equity to the public investor at a yield and under terms that would easily attract investment.

The capitalization strategy that addressed these two challenges consisted of:

1. Maximizing the number of funding components that could operate at market rates and minimizing the number that would be at concessionary rates.
2. Using the presence of the market rate components to solidify interest in the concessionary components.
3. Structure the operations to produce economies of scale that result in market rates for all funding components over time, and the elimination of subsidy.

This strategy called for market rate debt and preferred stock, and concessionary common stock that would become market rate feasibly and credibly. Banks have already demonstrated interest in CDFIs and CDFI assets, so the key focus was on obtaining preferred stock investors at market rates. The next step would be to demonstrate the performance of the preferred for the purpose of obtaining an investment grade rating. That would be the door-opener to the public equity markets. The common equity for the Platform would serve as the facilitator of this progress, and in turn would benefit by achieving the market rates over time.

Preferred Stock

Why preferred stock? Preferred stock and preferred units for partnership are similar to long-term debt in that they have a fixed payment and often have a stated maturity, albeit junior to debt in the capital structure. Although preferred shares have certain rights, they do not generally have the right to vote as common shareholders do. There are forms of preferred that more closely resemble common equity: the non-cumulative feature enables nonpayment of dividends for a period of time, and the perpetual feature can indicate that there is no fixed maturity. Of course, like common equity, their claims on assets are subordinate to all debt including junior subordinated debt. They are not typically collateralized. The fixed yield, limited voting, non-cumulative, and perpetual features are all attractive sources of funding for financial entities, particularly those that are smaller and generally less robust. Conversely, investors expect to be compensated in the form of dividends or share price appreciation, for example, more fully for preferreds that more fully resemble equity.

The banking industry provides a major client base to the preferred stock investor, primarily among smaller, regional and local banks. Typically, these are entities that cannot produce enough earnings to build the level of capital demanded by regulators internally to finance asset growth. Or they find it easier or less expensive to raise preferred rather than common for the purposes of meeting their Tier 1 capital requirements. Many non-profit

CDFIs face the same kind of challenge—except that instead of regulators the demand is driven by the needs of their constituencies, communities, and funders.

There is another reason that preferred stock suits the CDFI Equity Project: the asset growth expectation of preferred investors with respect to ROI is more modest—and consequently, the all-in yields or returns are more moderate—than on common equity. Preferred stock is more aligned with non-profit entities such as CDFIs.

Research on Preferred Stocks

(Please see Exhibit 3. Sample of Securities and Structures Reviewed for specific issuers reviewed.)

In the effort to map out the market appetite for the kind of risk the aggregated portfolio of CDFI loans would present, 6 banks, and a fund for trust preferreds ("TruPS), were reviewed. One of the banks arranged $75.0 million in non-cumulative perpetual preferred stock in February of 2020 at a yield of 5.5%. The bank and the financing were reviewed in depth. The delinquency, loss, capitalization, and cash flow trends of the participating CDFIs were more robust than for this bank issuer. This was the case for several of the other issuers as well. A review of a fund for trust preferreds indicated an investor appetite for banks and insurance companies rated in the BBB to BB range at the time. Although the financials of the fund investees were not reviewed, it was likely that most of the Project participants would present stronger and better capitalized balance sheets and cash flows. These overviews led to the conclusion that the preferred stock-type of instrument was not only appropriate for the CDFIs, but also for the Platform and that, properly structured, there would be investor appetite.

Common Stock

In running the many scenarios on the Roll-Up software, it became evident that the only way to make this work was to capitalize the Platform with at least 50% concessionary common equity. The chief obstacles were: (i) there were no CDFI equity issues in the public market for the purposes of benchmarking; and (ii) there were no valuations of CDFI net assets, or CDFI portfolio assets, nor were there sufficient data to establish them. (These challenges are discussed in greater detail in the next section.) However, the Project found two CDFIs that have raised common stock:

1. Community Development Trust in New York has issued over $300 million in common, preferred, and convertible preferred stock through its REIT over the past 24 years. Investors include banks, insurance companies, and other CDFIs.
2. Clearinghouse CDFI, based in Lake Forest, CA, has issued Class A common stock amounting to a book value of $46 million through 2021. Clearinghouse is a for-profit CDFI. Investors are primarily banks that conduct business in the states served by Clearinghouse.

The common stock for these two CDFIs has been issued privately, primarily with banks that have commitments to the communities served. There are CRA benefits that accrue as well, and the rates and terms appear to be concessionary. While this channel to equity does not provide the breadth and depth needed for a range of asset classes, multiple originators, or for a flow such as those envisioned by the Project, it does provide a breakthrough for both of the equity obstacles noted above. Both entities are of substantial size, and elements of both may prove helpful in the development of the Source LP, and the CDFI Equity Fund. The CDT and Clearinghouse equity are discussed further in Section IV. CDFI Risk.

Project Challenges

Following the Surveys, the development of the Software and the pro formas, the establishment of a structure and the equity, discussions were conducted with the funders, the participating CDFIs, S&P and potential investors. As part of these discussions, a number of concerns arose.

1. Insufficient data on CDFI net asset and portfolio performance:
    - Inadequate data on portfolio liquidations in the CDFI sector to support equity valuation.
    - Over-collateralization of less than 100% cash could not be quantified or certified.
    - Inadequate data to support an equity rating.
2. The complexity of going directly to the public markets:
    - There were a lot of moving parts in the proposal to go to the investing public, and the work and the cost were high relative to the certitude of success.
    - The absence of any similar equity financing in the public markets, which simultaneously included both concessionary and market rate equity positions.
3. Insufficient track record:
    - The platform was de novo so there was no comparable track record.
    - There was no indication of how much the CDFIs would use it or what circumstances would prompt increases or decreases in activity.
    - A good rating on the preferred would be necessary before going to the public markets.
4. Direct claims on lending assets for the preferred stock:
    - In the absence of a senior claim on the loans or recourse to the CDFI, preferred investors would need more information on the quality of the loans in the SPVs, the strength of the platform's monitoring and remediation, and the nature of the equity cushion under them.
5. Concessionary rate for investors in the common stock:
    - The common stock would not be purchased by public market investors until it reached a growth rate and dividend yield that met the market risk/return calculations.
    - Financial institutions, foundations, and philanthropic entities, as well as other accredited mission investors that are committed to the expansion of CDFI lending, need to see more CDFI demand for this kind of a solution and more evidence that it is the right path.
6. The potential taxability of CDFI loan revenue in a C-Corp structure.
7. The potential for separating unsecured CDFI lenders from the earning assets.
8. The possibility of creating a "good bank/bad bank" situation to the disadvantage of unsecured lenders and donors.
9. Rate is higher than other financing costs for the CDFIs:
    - The preferred stock costs more than debt as well as grant funding, and it raises the CDFI's cost of funds.

In the face of these challenges, there were several positives:

1. The Project had an aggregate CDFI loan portfolio and a blueprint for managing, monitoring, and remediating it.

2. The Project had—based on the Surveys submitted by the participants—a portfolio of $964 million in community development loans being capitalized by $200 million in preferred equity that would otherwise not be created.
3. Ten of the eleven participating CDFIs stayed with the Project (1 stepped away because their equity needs were negligible over the next 3-5 year time frame).
4. The ten remaining CDFIs had high quality operations, earning assets, and AERIS ratings.
5. Bank debt could likely be arranged for a portion of the funding, assuming equity were forthcoming.
6. The model for monitoring and remediation on which the Platform operations were based was established and working both efficiently and effectively, thereby demonstrating the feasibility of higher earnings and common dividends.
7. Given the historical lending performance of the ten participating CDFIs, it was likely that aggregated portfolio data generated over a 5-7 year period would warrant an investment grade rating on the preferred stock (or preferred interests or units).
8. Notwithstanding the insufficient data on equity valuations, Clearinghouse and CDT had demonstrated that banks and philanthropic organizations were willing to invest in CDFI equity.

It was clear, however, that gaining CDFI access to the public markets would involve a series of deliberate steps over a period of years to address the challenges. The step that would take the longest would be the demonstration of performance to the rating agencies to achieve the investment grade rating and, concurrently, to the investors at the Platform levels. That kind of demonstration would likely take a period of between 5-7 years if the Platform were established right now and the kind of reporting needed were initiated.

There was the possibility that the development of conclusive data on the valuation of CDFI loans, loan portfolios, and organizations in liquidation could shorten the time frame. The Project initiated an effort to capture that data. Working with D&B and with the CDFI Fund under a FOIA, the Project initiated the effort. The results, which were fragmented, are summarized in Section IV. CDFI Risk. It is a recommendation of the Project that the CDFI industry formalize and pursue this data, independent of the Project and the effort to raise equity in the public markets.

Notwithstanding the delay in accessing the public markets, there was strong advocacy among the CDFI stakeholders for proceeding with some form of equity raising. Waiting the 5-7 years for the valuation data before making the attempt didn't make sense: in addition to obtaining hard data on asset valuation, there was also a need for performance data on how well the Platform operated and the extent to which CDFIs used it. Instead of going to the public market, it was decided that CDFIs should start small and go to the private market.

Solutions

(Details are listed in Exhibit 3. Sample of Securities and Structures Reviewed, Exhibit 4. Potential SPV and Platform Structures.)

Once the direct approach to the public markets with a C-Corp/C-Corp structure (for the Platform and the SPVs) was set aside, the Project researched other structures that could serve as an attractive interim step. As part of the research, two REITs, a BDC, and two Interval Funds were reviewed.

Three Proposed Solutions

The first approach, which was explored starting in the summer of 2021, was to present three different structures for the platform and its SPVs: (i) a C-Corp Platform and C-Corp SPVs; (ii) A C-Corp Platform and LLC SPVs; and (iii) an LP Platform and LLC SPVs. The idea would be that the participating CDFIs and investors would decide on the optimal structure at the time of funding. Capabilities were added to the software which enabled the individual SPV and Platform assumptions to have different options relative to taxation, operating expenses, and forms of dividends and distributions in order to align with each of the three options. The idea of proposing all three options in the Report, however, was superseded by the realities in the marketplace: (i) while the C-Corp/C-Corp option would deliver the best results for the CDFIs in terms of pricing, flexibility, liquidity, and flow, it was the least likely to be arranged; and (ii) the C-Corp/LLC option could not be fully evaluated due primarily to the uncertainties of the various participating CDFI tax obligations. This left the LP/LLC structure. But by itself, this did not achieve the original objective of the Project: getting CDFI access to the conventional public equity markets.

Two Stages

Starting in July of 2022, the focus of the Project was on the development of a two-stage proposal. After reviewing a range of alternatives, it was determined that: (i) the initial equity Platform should be structured as a Limited Partnership; and (ii) the CDFI SPVs should be LLCs instead of C-Corps. There would be no need to change the lending benchmarks, the structure of the fund flows, the procedures, or the objectives as they would all remain the same. But the Platform would start smaller and be a privately funded entity. The downside to this move (from a "plain vanilla" C-Corp model to a hybrid Limited Partnership model), was the diminished size of the investing public and tighter private investor liquidity requirements. The smaller size and tighter liquidity could make the equity instruments less attractive and less accessible to the CDFIs. In addition, there would be the problem that an ongoing "flow" of equity could not be assured.

As noted in the Summary, the solution was the creation of two stages of financing:

1. Stage One: Capitalize CDFI lending activity with privately placed preferred and common partnership interests in a Limited Partnership—called **Source LP** (working title). The SPVs would be LLCs. During this 5-10 year stage, the use of the platform by the CDFI sector could be evaluated, and the portfolio and asset valuation data necessary for a preferred equity rating could be captured. This start-up period would also provide the opportunity to demonstrate the following:
    - What types and terms of loans are best capitalized by the platform.
    - Whether unsecured lenders are satisfactorily positioned. (See *Appendix F. The SPV and Unsecured Lenders*.)

- Whether a "good bank-bad bank" situation is actually produced to the disadvantage of one or more stakeholders. (See *Appendix G. Good Bank/Bad Bank—Or Maximization of Grant Capital?*)

2. Stage Two: Establish a C-Corporation or Beneficial Corporation platform capitalized by the issuance of rated preferred stock, and the sale of common stock to conventional investors in the public equity markets. This C-Corp or Beneficial Corp Platform would be called the **CDFI Equity Fund**—also a working title. The SPVs would likely remain as LLCs. This stage could be initiated in 5-10 years, assuming the Stage One portfolio and platform performance justified an investment grade preferred stock. The Fund could be set up with a purchase of the assets of Stage One, or with an expanded group of CDFI participants re-capitalizing themselves through the sales of existing loans to their SPVs.

In both Stages, the equity obtained would continue to be more expensive than grant funding, and it would continue to raise the CDFI's cost of funds. However, it would be a more scalable and reliable long-term funding source for CDFIs, and avoid the dependency on the unpredictable outcomes of grant-writing and fund-raising. The disadvantage of the higher cost could also be offset somewhat by the combination of the leveraging capacity of the equity, its limited size relative to other funding at the CDFI level, and the concept of the blended cost of funds.

To summarize, the CDFI sector will want this preferred equity available, even with the higher cost because:

1. As community demand for funding grows, the sector-wide leverage limit of 4:1 for CDFIs keeps them in the hunt for equity.
2. The Platform equity can be obtained quickly on demand without external approval when it is needed.
3. The funds will always be there regardless of donor capacity or changes in federal policies.
4. The Platform equity funds are unrestricted.

Next Steps

Because of the preferred equity investors' current unfamiliarity with CDFI dynamics, and the relative high cost of the equity, initiation of the Platform must be strategically timed:

1. Stage One: Source LP. At this writing in late 2022, the volatility in the stock and bond markets, together with the generally defensive or "risk-off" posture of the public and private investor, indicate that even a small platform with full rates and yields in the private market will be difficult to solicit. Nevertheless, there are steps that can be taken to move the effort forward:
    - Discussions with the investment firms that cater to the structured finance and alternative (subordinated, preferred) paper.
    - Discussions with large CDFIs (preferably rated) that have the capacity and inclination to raise funds and manage a platform like the Source LP.
    - Development of critical asset, portfolio, and organizational valuation data through additional research, and voluntary enlistment in reporting protocols that produce market-ready portfolio data.
2. Stage Two: CDFI Equity Fund. When stock indices are down and investors are risk adverse, there will be little appetite for investment in a CDFI Equity Fund. Such conditions also mean the cost of the equity may not be attractive to CDFIs. A CDFI Equity Fund will also be less attractive to CDFIs when the federal credit agency programs for low-income and rural constituencies are fully funded, and the regulatory environment supports a robust CRA. Conversely, interest in a CDFI Equity Fund will accelerate for investor and CDFI alike when the stock market is strong and/or the policies and priorities of major funding sources move away from the CDFI sector. In the last 20 years the industry has cycled through both sets of conditions. The strong support for this effort at inception was driven in part by the strong stock market (low yields) and potential cutbacks in CDFI funding at the federal level. Given the magnitude of community needs, the CDFI field should focus less on adjustments to the dynamics of federal and philanthropic funding, and more on the conditions in the marketplace, where CDFIs—given the quality of their work—should be welcomed.

In order to ensure growth and stability in the CDFI sector it would be prudent for the industry to "pre-package" a fund based on this kind of model—one that can be implemented quickly and comprehensively when conditions are conducive to a successful launch. This Report was designed as a tool to help facilitate that effort.

Section II. The CDFI SPVs

The CDFI Objectives

At inception of the CDFI Equity Project key objectives were identified by the CDFIs. To recap the bullet points in the Summary section, they were:

1. Obtain true equity on a flow basis.
2. Minimize cost.
3. Minimize investor discretion in management of CDFI and of CDFI lending activity.
4. Do not tie individual CDFIs to the funding platform and to the other fellow participants by way of joint and several obligations.
5. Delegate lending authority to the participating CDFIs so that they don't have the time and cost burden of getting the loans authorized or approved in advance by the fund.
6. Avoid the additional pledging of assets and balance sheets to funders.
7. Facilitate larger CDFIs in going directly to the conventional capital markets for equity when they achieve sufficient scale.
8. Expand the platform to include smaller CDFIs and depositories as the platform achieves scale.
9. Develop data and analytical tools that assist (i) CDFIs in managing portfolio risk; and (ii) conventional investors in investing in CDFI assets knowledgeably.

The Source LP accomplishes the first five of these objectives:

1. Separates the conventional investor from the non-profit CDFI for the purposes of (i) obtaining the lowest cost equity; and (ii) ensuring the independence and the integrity of the CDFI mission.
2. Enables individual access to the equity without joint and several obligations with other participants.
3. Avoids additional pledging and collateral obligations.
4. Provides delegated authority so that the time and the cost involved in selling loans and raising money for both originator and funder can be dramatically reduced, along with the uncertainties of approval.
5. Provides funding that is informed and guided by the mission and the market knowledge of the CDFI industry.

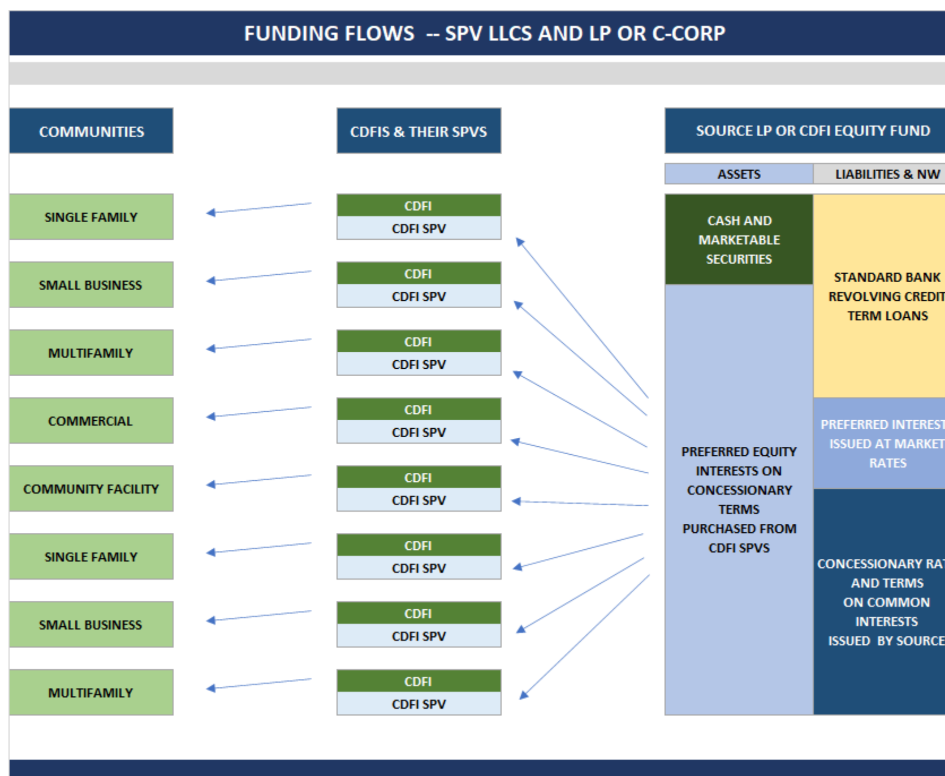
By aggregating the CDFI assets and presenting the risk of its own balance sheet and cash flow to the investors, the Source LP also provides equity at rates and terms that the CDFIs cannot otherwise obtain. In order to get to the ultimate objective, though—the public markets with the ongoing flow of lower cost, more flexible equity—CDFIs will need to assist. Participating CDFIs will need to:

1. Engineer a solid performance over a 5-7 period demonstrating the quality of the CDFI equity.
2. Adopt systematic portfolio reporting which offers investors an accurate risk-adjusted rate of return—that is, one that reflects the true—rather than the perceived—credit risk.
3. Promote continued and attract new financial and resource support from local banks and other institutions to the program.

The SPV Equity Flows

How the SPVs Work

The following chart shows a portion of the flow chart in the Summary section. It shows the flow of funds from the equity Platform—the Source LP—to the SPVs, the CDFIs, and ultimately to the low-income communities and constituencies.



To reiterate the steps outlined in the Summary, CDFIs create the special purpose vehicles (SPVs) to provide a for-profit entity that buys CDFI loans, issues the equity instruments *to* the Source LP, and receives the cash *from* the Source LP. There is no formal way for a *non-profit* to do this directly with the public markets.

All of the transactions between the parent CDFI and the SPV are true sales of loans at the face value of the loan. However, the loans are not physically transferred from the CDFI to the SPV or back again. All of the transactions are simply on paper, or electronic. There is an operating agreement between the CDFI parent and its SPV (see *Appendix B. Operating Agreement*) that governs the lending, servicing, administrative operations, and the transactions, as well as the reimbursements to the CDFI. Although all of these activities are conducted by CDFI staff and reimbursed by the SPV, all transactions must be conducted at face value on an arms-length basis.

SPV Organizational Structure

In Stage One, the SPV is an LLC, which retains the non-taxability of community development loan revenues. In Stage Two, the SPV may remain as an LLC or it may convert to C-Corp status. In Stage Two, when the Platform becomes a C-Corp, the SPV may be obligated to pay taxes on income if it remains an LLC. If it becomes a C-Corp, it will very likely be obligated to pay income taxes. The trade-off is getting access to the public equity markets.

Staffing

Under an operating agreement drafted by the CDFI (see *Appendix B. Operating Agreement*), the following steps are taken and functions performed:

1. The CDFI selects the Board. There is a range of structures, but it is helpful to include some outside oversight for the purposes of demonstrating and ensuring the arms-length status of the transactions. For example: the CDFI creates a 5-member Board of Managers of which 3 members are CDFI staff and 2 are outsiders who know the business and the industry.
2. The CDFI identifies officers, outlines authorities, and conducts oversight of the SPV.
3. The financial, administrative, origination, and servicing functions of the SPV lending are conducted by existing CDFI staff in the normal course of business.
4. The costs incurred in their SPV activities are identified and reimbursed to the CDFI on a reasonable and consistent basis by the SPV, under the terms of the operating agreement (*Appendix B*).

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Number of Loans Originated			10	11	12	13	14	15	16	17	18	19
Cumulative Number of Loans Originated/Serviced			10	21	33	46	60	75	91	108	126	145
Inflation Rate		2.00%										
FTE hours to Originate 10 Loans		1890										
Cost of 1 Origination FTE		$ 112,457										
Salary Cost per hour		$ 62.48										
Salary Cost per Loan Origination/Annual Cost		$ 11,807.99	$ 118,079.85	$ 129,887.84	$ 141,695.82	$ 153,503.81	$ 165,311.79	$ 177,119.78	$ 188,927.76	$ 200,735.75	$ 212,543.73	$ 224,351.72
Number of FTE			1.05	1.16	1.26	1.37	1.47	1.58	1.68	1.79	1.89	2.00
FTE hours to Service 50 Loans		1300										
Cost of 1 Servicing FTE		$ 76,923										
Salary Cost per hour		$ 42.74										
Annual Service Cost per Loan/Annual Cost		$ 1,111.11	$ 11,111.10	$ 23,333.31	$ 36,666.63	$ 51,111.06	$ 66,666.60	$ 83,333.25	$ 101,111.01	$ 119,999.88	$ 139,999.86	$ 161,110.95
Number of FTE			0.14	0.30	0.48	0.66	0.87	1.08	1.31	1.56	1.82	2.09
Total Lending FTE			**1.19**	**1.46**	**1.74**	**2.03**	**2.34**	**2.66**	**2.99**	**3.35**	**3.71**	**4.09**
% Administrative FTE to Lending FTE		50%	0.60	0.73	0.87	1.01	1.17	1.33	1.50	1.67	1.86	2.04
Avg. Admin Cost			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Salaries and Benefits with inflation			**$ 131,774.77**	**$ 159,411.28**	**$ 189,279.66**	**$ 221,481.71**	**$ 256,122.89**	**$ 293,312.41**	**$ 333,163.38**	**$ 375,792.90**	**$ 421,322.22**	**$ 469,876.84**
Professional Fees		$50,000	**$51,000.00**	**$52,020.00**	**$53,060.40**	**$54,121.61**	**$55,204.04**	**$56,308.12**	**$57,434.28**	**$58,582.97**	**$59,754.63**	**$60,949.72**
Reimbursement of other CDFI Costs												
Portfolio Management Fee	1.50%		$74,156	$153,103	$229,192	$287,845	$350,011	$415,942	$485,638	$559,099	$636,325	$717,317
Organizational, Governance			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Dues, subscriptions, training			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Marketing			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Travel			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Equipment, utilities, communications, rent			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Reimbursement Other			**$74,156.25**	**$153,103.13**	**$229,191.57**	**$287,845.21**	**$350,010.90**	**$415,941.75**	**$485,637.77**	**$559,098.95**	**$636,325.31**	**$717,316.83**
NPAT			($42,246)	$207,582	$476,314	$785,394	$836,833	$819,395	$775,018	$709,287	$627,441	$494,341
NPATAD			($101,571)	$85,099	$292,961	$555,118	$582,025	$486,641	$386,508	$262,007	$118,380	($27,865)

As shown in the chart above, the inputs in the Roll-up software are designed to assist in activity-based costing for loan origination and servicing. In addition, the data fields shown in the Report in *Appendix H. Internal SPV Reporting* can assist in calculating the proper amount of the expenses and the reimbursement. The same kind of information can be established with most activity-based costing efforts.

Financial Condition of the SPV

In the absence of covenants and collateral, the Source LP uses the terms of its preferred interest to encourage prudence. Financial constraints on the SPVs are enforced by:

1. The maximum of 20 cents on the dollar for every loan purchased not to exceed 20% of total loans outstanding.
2. The requirement that the CDFI inject equity equal to 50% of the preferred interest (not less than 10% of total SPV loans).
3. The requirement that any losses at the SPV be reimbursed by the CDFI so that the book value of the common equity and retained earnings never drops below 50% of the value of the SPV preferreds.
4. A prohibition of assets in the SPV other than cash and marketable securities and that at least 95% of assets must be in loans purchased from the CDFI.

There are several reasons that it is in the best interest of the Source LP *and* the CDFI to align on these financial constraints on the SPV:

1. The issue of creating a for-profit entity to issue equity and receive cash is sufficiently complex; keep the entity itself as simple as possible.
2. Provide a stable location of value in which both CDFI lenders and the Source LP can have confidence.
3. Facilitate positive analysis of the aggregate portfolio by the Source LP preferred and common investors.
4. Avoid higher cost equity: participating CDFIs do not want to absorb the credit costs of another CDFI's wayward SPV by way of paying higher dividends on the preferred interests they issue to the Source LP. As a result, the Source LP charges more for excessive portfolio risk-taking at the individual CDFI-SPV level.
5. A stable and consistent performance of the SPV advances the progress toward direct issuance in the public market when the CDFI achieves sufficient scale.

SPV Lending Operations

Benchmarks

Community and asset class targets for the Source LP investor (i.e., rural, severely distressed, small business term loans, and the like) are set by the Board of Managers of the Source LP. The Board of Managers relies on the recommendations of its Market Advisory Committee, which is composed of CDFIs and representatives of one or more federal agencies serving the CDFI sector (see Section III. The Equity Platform). Credit benchmarks (i.e., downpayment, years in business, LTV and DSC) are likewise determined. They are set at the beginning of each year and updated quarterly. The participating CDFIs are expected to advise the Market Advisory Committee as well as the Board on these criteria based on what they are witnessing at street level.

Delegated Credit Authority for the CDFIs

The participating CDFIs are authorized by the Source LP (and later the Stage Two CDFI Equity Fund) to initiate the loan sales to their SPVs at their sole discretion. The Source LP purchases the SPV preferred interests that are issued by the SPV to help fund the purchase of these CDFI loans automatically at the rate of 20 cents on the dollar per loan purchased.

Quarterly Sales

1. The Source LP conducts SPV preferred purchases at the end of each quarter. CDFIs who wish to sell loans that are capitalized with the SPV preferred proceeds can sell the loans at that time.
2. The CDFI can repurchase or exchange loans at any time as long as the ratio of SPV preferreds to Total SPV loans does not exceed 20%.

Sale of Loans to the SPV

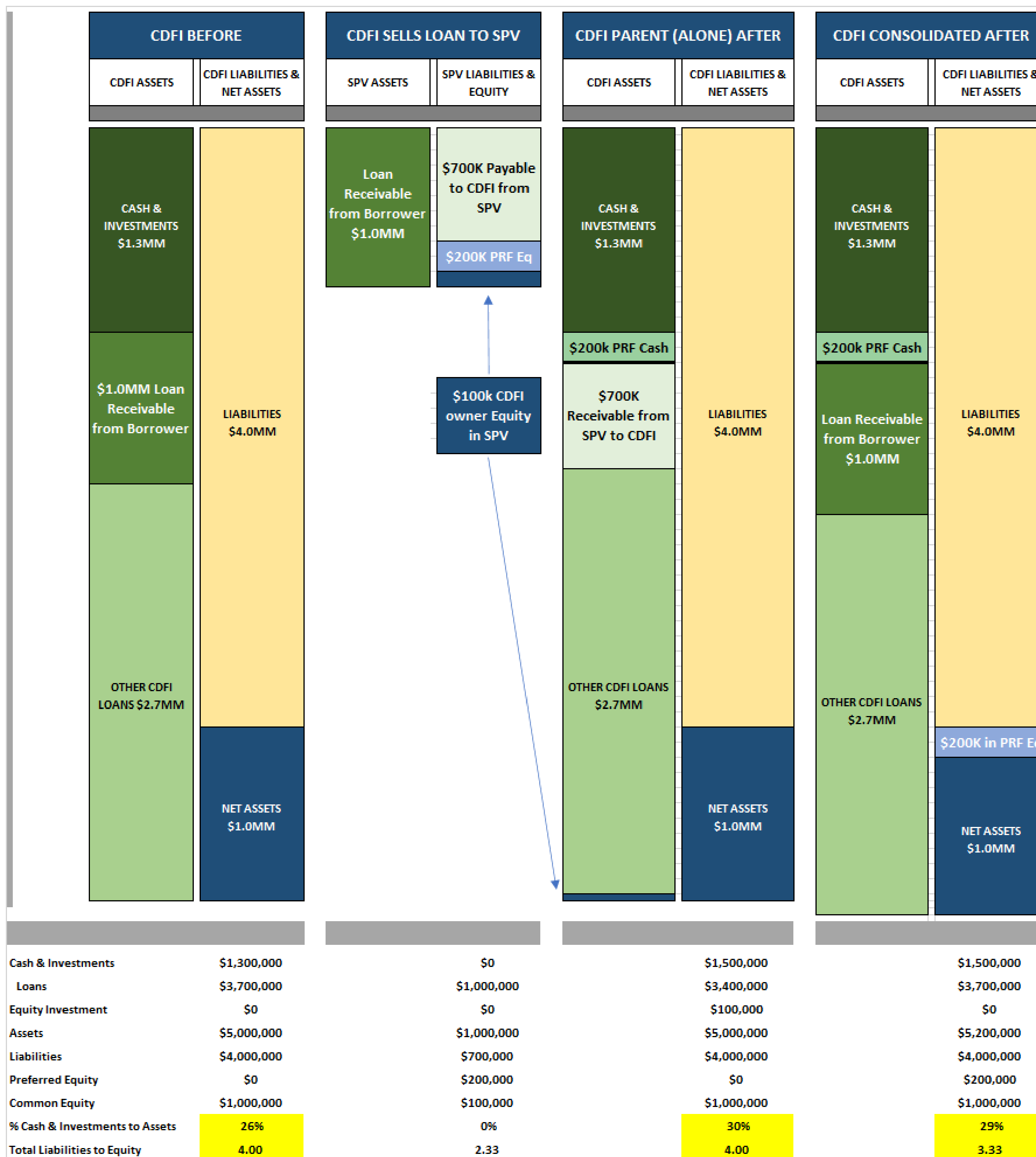
Sales to the SPV are true sales. Because all transactions must be at arms-length, the following pertains:

1. All loans purchased or sold by the CDFI or the SPV—one to the other—are current, in good standing, and at face value.
2. The CDFI SPV maintains a minimum common equity of 10% of Total Loans and 50% of SPV preferred interest. This serves as the primary financial recourse the Source LP has to the CDFI.
3. The CDFI SPV produces reports on the loans in the SPV portfolio on a reporting protocol that provides the data that rating agencies require to assess loan and loan portfolio performance and value.

The SPV reporting protocols are essential to the prudent operation of the Source LP's monitoring function. They directly align with the data required in the Roll-Up for the purposes of: (1) segmenting the CDFI's financial, demographic, and risk targets, and (2) generating early warnings and remedies for differences in performance. An example of a monthly reporting with the appropriate data is in *Appendix H. Internal SPV Reporting*.

Use of Proceeds

1. Cash upstreamed to the CDFI from the issuance of SPV preferreds may be used for any purpose.
2. In addition to the upstreaming of the proceeds of the preferred interests and the reimbursement for operational activities, the CDFI may also take distributions from the SPV—as long as the minimum equity percentages are maintained.



	CDFI Before	CDFI Sells Loan to SPV	CDFI Parent (Alone) After	CDFI Consolidated After
Cash & Investments	$1,300,000	$0	$1,500,000	$1,500,000
Loans	$3,700,000	$1,000,000	$3,400,000	$3,700,000
Equity Investment	$0	$0	$100,000	$0
Assets	$5,000,000	$1,000,000	$5,000,000	$5,200,000
Liabilities	$4,000,000	$700,000	$4,000,000	$4,000,000
Preferred Equity	$0	$200,000	$0	$200,000
Common Equity	$1,000,000	$100,000	$1,000,000	$1,000,000
% Cash & Investments to Assets	26%	0%	30%	29%
Total Liabilities to Equity	4.00	2.33	4.00	3.33

Note: Except for the movement of the $200,000 from the Source to the SPV, everything is an electronic transaction. Other than that, there is no change in the normal operation of the CDFI lending or administrative procedures.

In the chart above, the CDFI BEFORE columns show the financial ratios for the CDFI if it books a $1,000,000 loan:

1. The CDFI credits its cash account for $1,000,000 and conveys it to the borrower.
2. The CDFI debits its Loan Receivable account for $1,000,000, raising it to $3,700,000.

The next three columns show how the CDFI Equity Platform—the Source LP—improves both liquidity and capital:

1. The CDFI sells the $1,000,000 loan to its 100% owned SPV (2nd Column).
2. The SPV issues $200,000 of SPV preferred units to the Source LP and receives 20% of the value of the loan in cash—$200,000, which is upstreamed to the CDFI Parent (2nd Column).
3. The CDFI injects $100,000 in common equity into the SPV. This may be in cash or in other earning assets (2nd Column).
4. The SPV issues a $700,000 note payable to the CDFI to complete the transaction (2nd Column).
5. The CDFI on a Parent-Alone accounting basis now shows $200,000 of additional cash, so its cash & investment account goes up to $1.5 million from $1.3 million (3rd Column).
6. The CDFI Parent now has a $700,000 note receivable from the SPV and a $100,000 equity investment in the SPV. Together with the $200,000 in cash from the SPV preferred, this amounts to $1,000,000, equal to the amount of the loan that was sold (3rd Column).
7. On a Consolidated basis, when the 100% owned SPV is consolidated into the CDFI's books, the intercompany accounts are eliminated leaving the final Consolidated Audit for the CDFI with $200,000 more in cash and $200,000 more in equity.

Notably, the CDFI only has 10% equity committed to the SPV resulting in a 9 to 1 leverage of its grant capital. This more than doubles the leveraging power of its grant capital in the making of loans. It frees up CDFI grant capital for the harder to fund assets and programs.

As complex as this is, it has a material positive affect on the liquidity and the capital of the CDFI as reflected in the following liquidity and capital ratios:

	CDFI Before	CDFI After Parent Alone	CDFI After Consolidated
1. Cash & Investments to Total Assets:	26%	30%	29%
2. Total Liabilities to Equity:	4.0:1	4.0:1	3.3:1

In sum: the CDFI ends up with more cash, more equity, more capacity to make loans, and more effective use of its grant capital.

Unsecured Lenders

Concern has been expressed that unsecured lenders to the CDFI Parent (on an Alone basis) will be switching a $1,000,000 customer loan for (i) note payable from the SPV, (ii) an equity investment in the SPV, and (iii) $200,000 in cash. The concern is that there might be a deterioration in asset quality and/or access to cash flows to

the CDFI's unsecured lenders as a result. There are several ways to satisfy this concern, the most direct of which is to make the SPV a signatory on the CDFI's financial obligations—which is a common solution. But the issue is more delicate and requires further discussion. A discussion is presented in *Appendix F. The SPV and Unsecured Lenders*.

Good Bank/Bad Bank?

Concern also has been expressed that this structure could produce a "good bank/bad bank" situation in which the CDFI becomes the bad bank as a result of the higher quality loans of the CDFI being sold to the SPV ("adverse selection"). One of the fundamental assumptions of this project is that CDFIs will indeed sell good loans out of their portfolio to the SPVs. They will be inclined to do it voluntarily because it is the best way to keep the equity door open and also to minimize the cost of the SPV preferreds that they issue. One of the chief objectives of the Project is to demonstrate the quality of CDFI lending to the marketplace by showcasing the portfolio of the Source LP and the portfolios of the SPVs. Demonstrating this persuasively will reduce the cost of equity from public markets over time. For the SPVs and CDFIs it will also reduce the cost of equity in the near term: SPVs that have higher percentages of delinquencies and losses may have to pay higher rates on their equity so that the other CDFIs do not have to subsidize the cost of their underwriting.

Selling good loans to the SPVs is a benefit not only in terms of a lower cost and continued access to equity from the public markets, it is also a benefit to the CDFI in terms of the best use of capital. The equity platform frees up grants from funding loans that can be capitalized with other sources of funds. This enables the CDFI to deploy more grant funds on the more challenging forms of credit. As opposed to being a good bank/bad bank proposition, the platform enables more effective use of grants in the pursuit of filling the gaps. A fuller discussion is in *Appendix G. Good Bank, Bad Bank—Or maximization of Grant Capital?*

Summary of the Terms and Conditions of the SPV Preferred Interests and SPV Preferred Stock

(Please note: the yields presented below are placeholders only, for the purposes of this report. They are based on market research and analysis conducted in 2020, and are used in the Pro Formas. Current market conditions are different. The terms will be updated in the securities offering document when market conditions are similar to those in 2020-21).

1. Stage One SPV Preferred Units purchased by the Source LP platform.

Dividend/Distribution Yield	6%
Cumulative/Non-cumulative	Cumulative
Redemption/Repurchase	10% every 5 years
Minimum % Common Equity to Preferred Units	50%
Minimum % SPV Cash & Investments to Total Assets	2.00%
Minimum % SPV Cash & Investments to Total Debt	3.00%

2. Stage Two SPV Preferred Stock purchased by the CDFI Equity Fund, a C-Corp or Beneficial Corp.

Dividend Yield	6.50%
Cumulative/Non-cumulative	Non-cumulative
Redemption/Repurchase	None
Minimum % Common Equity to Preferred Units	50%
Minimum % SPV Cash & Investments to Total Assets	1.5%
Minimum % SPV Cash & Investments to Total Debt	2.00%

The terms of the Preferred Units and the Preferred Stock highlight two important design features for the platform:

1. The SPVs are designed as cookie-cutter entities that are easily comprehensible to the investing public. From the standpoint of the balance sheet they are structured around the following:
   - SPV assets are limited to cash, marketable securities, loans, and loan related accounts.
   - Preferred Units and Preferred Stock are issued at 20% of each loan and are not to exceed 20% of total loans. All loans will amortize faster than the share redemption, which means that the SPV either uses the surplus SPV Preferred Equity to fund new loans or redeem the SPV Preferreds.
   - CDFI equity is injected at 50% of the value of the Preferred Units (Interest) or Preferred Stock.
   - Debt to Equity can only exceed the 2.5 range if cash and marketable securities are expanded. However, no less than 95% of the SPVs assets must be invested in purchased CDFI loans.

2. In spite of the higher dividend yield, Stage Two provides a significant improvement over Stage One in terms of liquidity, longevity, and the flexibility of the funding for the CDFI SPV:
   - In Stage Two, the dividend payments on the Preferred Stock become non-cumulative, which essentially means that payments can be missed from time to time without accumulating a dividend payable. The higher dividend compensates investors for the non-cumulative missed dividend payment risk.

- There are no required redemptions which means that the SPV can keep the full amount of the preferred for as long as needed, and redeem it when desired.

Through the Stage Two CDFI Equity Fund there is an ongoing access to the $250 billion preferred stock market which enables access to equity on a flow basis. At this point, the CDFIs will be obtaining true equity from the market with the best available terms.

SPV Reporting and Data Management

In Stage One of the project the Platform is a Limited Partnership that issues equity privately. The two chief objectives of this interim step to the public markets are:

1. Establish a sustainable usage of the Platform by CDFIs for raising equity.
2. Document the performance and valuation data on CDFI loans, portfolios, and organizations that meet the needs of the rating agencies.

This Section focuses on the second of the two goals: the data needed for the rating agency evaluation of CDFI equities.

Given the standards by which the CDFI participants were selected, and the performance that they have demonstrated in the past, it is unlikely that they will develop an adequate sample of loans, portfolio, or organizational distress that provides a sufficient sample to establish asset liquidation values. On the other hand, the continuation of their solid performance, tied together with an expanded and more comprehensive look at their assets, should enable them to obtain a rating in aggregate.

While the current reporting protocols in the industry are sound, they do not adequately show the full picture of the lending assets, how they are managed, and where the risks are. In order to present a more complete “three dimensional” view of their lending activity, the CDFIs who participate on the Platform will want to add the following datapoints to their budget/actuals, if they don’t have them already.

1. Loan Volume and Loan Repayments

Loans Outstanding	$	#
Loans Approved	$	#
Loans Disbursed	$	#
Loan Principal Repayments	$	% to Disbursed

Across the non-profit CDFI sector, fund accounting often focuses primarily on changes in the balance sheet and provides only cursory information on the lending cash flows. The three lines above are often missing from the audits. In addition to the loans outstanding, these three line items indicate a number of crucial components of the lending business, including (i) the size and timing gap between loans originated and loans funded; (ii) the actual amount of cash expended in funding the loans; (iii) the amount of funding that is self-generated through loan repayment; (iv) the weighted average life of the loans in the portfolio; (v) the average size of loans in the portfolio; and (vi) the average size of new loans; and (vii) the adequacy of new loan growth. All of these components are crucial to the financing decisions of the organization, and all are indicators not only of financial

health, but also of mission fulfillment. For any kind of lender, the Loans Disbursed figure is the single most important figure in any budget or strategic planning forecast.

2. Operating Expenses

Total Staff	$	#
Management Staff	$	#
Administrative Staff	$	#
Lending Staff	$	#
Servicing Staff	$	#
Program Staff	$	#
Staff Related Expenses	$	% to Staff $
Professional Services	$	% to Loans O/S $
Portfolio Services	$	% to Loans O/S $
Transactional Services	$	% to Loan Volume $

It is normal for the FTE hours and expenses to vary widely on a per loan basis from a small loan to a large loan and from one asset class to another. But also within the CDFI field, they can vary widely from one CDFI to the next even when the loan is the same size and of the same asset class. This is distinct from the conventional lending arena where there are staff time and operating expense benchmarks for the origination, underwriting, and servicing functions across the asset classes. That CDFIs are distinct from the conventional market in this regard is a logical result of their focus on the specific communities they serve and, more critically, the amount and type of work it takes to ensure the success of their borrowers. Since this staff focus is *the* distinguishing feature of CDFI lending, the data that show what it costs to produce their lending results are essential to investors. In the context of participating on the Platform, this methodology enables management to delineate staff costs that are to be reimbursed by their SPVs under the operating agreements.

3. Production

Applications Processed per Lender	$	#
Renewals Processed per Lender	$	#
Modifications per Lender	$	#
Delinquent Loans per Servicer	$	#
Defaulted Loans per Servicer	$	#

In their lending activity, CDFIs have a distinct mission and distinct methodology for achieving it. These five points represent key areas of "operational risk" where insufficient staffing or inadequate skills can prompt excessive costs or even losses. The data above enable CDFI management to track this activity by way of unit cost analysis. Management can use it for activity-based costing analysis which facilitates the allocation of staff, skills, and talent with fluctuations in the volume in each category. The data also help investors understand the way in which these operational risks are handled by the participating CDFIs and the costs associated with them. These may also serve as indicators for the CDFI industry generally.

4. Loan Attributes by Asset Class

Average Interest Rate		%
Weighted Average Maturity		Years
Prepayment	$	%
Average Credit Score	Number	% of Loans O/S
New Customers	$	#
Existing Customers	$	#
Growth	$	%

These loan attributes should be broken out and filled in for each asset class. While most lenders, including CDFIs, make the interest rates and maturities of their loans public, they don't show the actual cash flows in the portfolios. A home mortgage, for example, might have a stated maturity of 30 years and an interest rate of 6%, but it might be paid off in 7 years; or there might be some payment incentives or delinquent payments that alter the actual interest yield received in cash. This is important management and investment information, particularly on an aggregate basis. The same holds true for the weighted average maturity and the rate of prepayments. Taken together, these all indicate how much cash is self-generated by the portfolio and how much must be raised in debt and capital to support growth. The composition of growth is also a cardinal issue: is growth driven more by new customers or by expansion of lending with existing relationships? New customers generally represent greater risk, but they also indicate expanding demand for the kind of capital the CDFI is providing. The average credit score is very useful for those asset classes, like home mortgages and small business, in which they are best applied. Credit scores help management in pricing as well as portfolio allocations and anticipation of default and impairment. They also help investors understand the underlying risk of the assets. For loans that do not fit the credit scoring protocols, management can and should report weighted average LTVs, DSCs, Interest coverages, Leverage, Equity, and other relevant financial statement datapoints, as well as D&B and Paydex scores. Again, this will be helpful to the investors—and the rating agencies.

5. Risk Management

Total Modifications this Period	$	#
Modified Loans Outstanding	$	#
Loans with 1 Modification	$	#
Loans with 2 Modifications	$	#
Loans with > 3 Modifications	$	#

One of the longstanding tenets of CDFI lending—and how it differs from conventional lending—is that CDFIs are supposed to take a higher level of risk, as reflected in the level of delinquencies, and work this down to a much lower level of charge-offs. Modifications of the major loan terms are a primary tool. The faster a defaulted loan is liquidated through the sale of the underlying assets, the more cash the lender is able to recover. The question is: at what point of delinquency does default become obviously irremediable? It's a hard question, played out on a loan-by-loan basis everywhere. Generally speaking, lenders in the conventional sector are primed to liquidate sooner rather than later. With the interests of the community as a priority, however, CDFIs tend to modify the major terms of a loan in order to extend the borrower's efforts to stay in

place and remedy the situation. The major terms subject to change in this situation are: interest rate, maturity, and payment. Because this conduct is new to investors, they cannot be expected to understand it or feel comfortable with it. Ditto the rating agency analysts who have not seen hard data on the efforts or the outcomes. The way to overcome this is for the CDFI to keep track of (i) the modifications involving major changes in loan terms in the context of delinquency; and (ii) the portion of the loan portfolio that has experienced one, two, or three or more modifications. These data indicate not only the number and amount of loans that have faced trouble at one point or another (an indication of ascending risk) but also the amount of work that has been done with borrowers to help them succeed. The modifications help the community stabilize at street level and maintain value. The data are also helpful in demonstrating the tension that CDFIs experience between the dampening of interest revenue due to lower and slower payments, and the higher level of staff expense deployed to implement remedial strategies.

6. Loss Reserve Adequacy

Charge-offs	$	% to Loans O/S $
Recoveries	$	% to C-Offs $
Provision for Losses	$	% C-Offs/Provision
Loss Reserve	$	% to Loans O/S $
Loss Reserve Adequacy	% C-Off to LR	% Provision to LR

These data are common to most, if not all, reports of financial condition. In this configuration, however, the objective is to discern management capacity to anticipate and adequately reserve for credit losses. The comparisons of Charge-offs to Loans Outstanding, Recoveries to Charge-offs, and Loss Reserves to Loans Outstanding are common. But helpful as well is tracking the level of Charge-offs to the Provision for Losses, and the level of the Provision to the Loss Reserves. A high Charge-off to Provision ration may indicate an unanticipated surprise or exceptional tightness in profit margins. A high ratio of Provision to Loss Reserve may reflect the same condition. The analyst can close the loop by calculating the Charge-off to the Loss Reserve. All of these can be tracked over time and reflect the capacity of CDFI management to protect the balance sheet as well as the portfolio.

7. Asset Valuation

120 Days + Past Due	$Original Value	$Current Book Value
Loans in Workout	$Original Value	$Current Book Value
Loans on Non-Accrual	$Original Value	$Current Book Value
Loans Liquidated	$Original Value	$Sale Price
Liquidated Value	$	% Sale/Original Price
Other Real Estate Owned	$Original Value	$Current Book Value
Real Estate Liquidated	$Original Value	$Sale Price
Liquidated Value	$	% Sale/Original Price

There are basically three categories of loans that are primed for liquidation: 120 days + Past Due, Loans in Workout, and Non-accruals. Auditing practices across the CDFI sector differ, and one or more of these categories may be missing in many reports. Other Real Estate Owned is often shown. However, the Loans

Liquidated, the Liquidated Value, the Real Estate Liquidated, and the Liquidated Value are not consistently reported, if at all. This is the information that is essential for a solid CDFI equity rating. At present, in the absence of hard data, private funds that invest in quasi-equity instruments are routinely awarded zero value in liquidation. CDFIs can do better than that. Collection of this data can and should be collected at the CDFI level and consistently reported in the notes to the audited financial statements, if not in the balance sheets, operating statements, and cash flows.

A monthly report that includes these sets of data as well as the standard budget/actual line items is attached in *Appendix H. Internal SPV Reporting*. Again, it is unlikely that the participating CDFIs will produce a large sample of delinquent and liquidated loans from which benchmarks can be extrapolated. But their good performance over the initial 5-7 years of Stage One should be sufficient for rating agency conclusions as to Platform risk.

Notably, these datapoints would show a much better sample if collected by the CDFI Fund for the full range of certified CDFIs. At that magnitude of input, the investor or ratings analyst would get the full three-dimensional view of the components of the CDFI loan and how they work together to produce assets that can be safely financed. A "wish-list" for CDFI data collection is in *Appendix I. CDFI Data for Making the Rating Agency Case*.

The Aggregate Portfolio of SPV Loans

It is important to note that throughout the proposed equity-raising process, *all of the loans remain on the balance sheets of the CDFIs and their SPV subsidiaries.* Although the Platform is the aggregator of all of the SPV loans, it is only a virtual aggregation, and the Platform only funds, at most, 20% of the total. The following is a summary of what that total aggregation of loans looks like.

The Composition of the CDFI Loans

These loans are all made for the purpose by CDFI of improving wealth and the quality of life in low-income communities and among low-income constituencies. There are to be six classes of loans purchased:

1. Single family: owner occupied
2. Small business: including newer and smaller enterprises
3. Multifamily: including manufactured housing
4. Community facility development: including educational, medical, athletic, arts facilities
5. Commercial real estate development: including owner-occupied, leased, essential goods and services
6. Other: primarily loans to other CDFIs

The Source LP will create buckets for each of these asset classes and their sub-categories to facilitate lender and investor analysis. The assets all have the following distinguishing factors:

1. The loans would not be originated by conventional, non-CDFI lenders.
2. The loans have the support of the community and are in accordance with local community and/or municipal plans.
3. Loans are originated by the CDFIs and serviced by them or their vendor.
4. Credit criteria are within the standards common to the CDFI sector. The primary differentiation from the private sector credit guidelines is that the obligor's collateral and/or capital does not necessarily meet depository regulatory guidelines. In addition, the small size of the loan causes it to have a higher unit cost of origination ("transaction costs") and servicing than targeted by conventional lenders.
5. Due diligence and borrower monitoring are performed on-site by the CDFI originators at a substantially higher frequency and precision than typical of the conventional lending sector.
6. Loans are purchased based on the credit guidelines recommended by the Platform's Market Advisory Committee and set by the General Partner or Board of Managers. These are updated as needed.
7. All loans purchased are fixed rate.

The loans sold by the CDFIs to their SPVs tend to have longer maturities. This enables the CDFIs to keep their balance sheets liquid and facilitate asset-liability management. It enables the CDFIs to take appropriate advantage of the longer duration of the equity provided to their SPVs.

The Aggregate SPV Portfolio Forecast Years 1-10 (Source LP)

Based on the Surveys submitted by the participating CDFIs and the assumptions associated with them, the chart below shows an aggregate loan portfolio of $964mm in SVP portfolio loans outstanding in the 10th year. The projected initial breakdown of the portfolio by asset class is: Single Family-0%, Multifamily-53%, Small

Business-18%, Community Facility-6%, Commercial Real Estate-17%, and Other (primarily loans to CDFI organizations)-6%. The average size of the loans being funded was initially $841,000, the average term was 107 months, and average fees at closing amounted to $15,400.

Qualitative issues on the loans were not requested in the Surveys, so there is no present indication of the borrower credit scores, LTVs (loan to value), CLTVs, DSC (debt service coverage), interest coverages, borrower equity, borrower revenue or income, years in business, or years as a customer. However, these items will be captured as part of the loan purchase closing and as an ongoing reporting protocol for all portfolio assets that will be capitalized by the preferred units that the Source LP purchases.

AGGREGATE PORTFOLIO OF SPV LOANS	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Single Family Loans o/s	$42,428,040	$76,698,316	$101,859,018	$116,909,637	$120,873,051	$120,873,051	$120,873,051	$120,873,051	$120,873,051	$120,873,051
Single Family Loans o/s % to total Loans	41%	36%	32%	28%	24%	21%	18%	16%	14%	13%
Multifamily Loans o/s	$25,740,908	$59,951,558	$99,961,645	$147,818,630	$198,678,676	$249,491,402	$300,486,235	$350,898,345	$402,412,177	$454,818,939
Multifamily Loans o/s % to total Loans	25%	28%	31%	36%	40%	43%	44%	46%	46%	47%
Small Business Loans o/s	$16,376,153	$32,679,291	$48,223,567	$61,714,846	$74,309,568	$88,852,637	$105,716,744	$125,317,438	$148,070,067	$172,919,898
Small Business Loans o/s % to total Loans	16%	15%	15%	15%	15%	15%	16%	16%	17%	18%
Community Facility Loans o/s	$4,819,374	$9,449,803	$13,879,314	$20,024,992	$25,875,374	$31,415,645	$39,523,088	$47,178,031	$54,356,464	$61,034,325
Community Facility Loans o/s % to total Loans	5%	4%	4%	5%	5%	5%	6%	6%	6%	6%
Commercial RE Loans o/s	$12,500,000	$29,996,250	$42,494,750	$49,992,500	$49,992,500	$54,992,500	$64,991,000	$74,989,500	$84,988,000	$94,986,500
Commercial RE Loans o/s % to total Loans	12%	14%	13%	12%	10%	9%	10%	10%	10%	10%
Other Loans o/s	$2,812,000	$7,030,000	$12,654,000	$19,684,000	$28,120,000	$37,540,200	$45,765,300	$51,881,400	$56,591,500	$59,895,600
Other Loans o/s % to total Loans	3%	3%	4%	5%	6%	6%	7%	7%	7%	6%
Average Amount	$963,517	$982,242	$925,667	$897,333	$858,647	$841,986	$843,884	$837,735	$836,971	$841,024
Average Term	90.73	106.73	106.73	106.73	106.73	106.73	106.73	106.73	106.73	106.73
Average Fees at origination	$13,478	$15,449	$15,449	$15,449	$15,449	$15,449	$15,449	$15,449	$15,449	$15,449
Average annual fees	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Average Borrower Credit Score	-	-	-	-	-	-	-	-	-	-
Average LTV	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average CLTV (Combined)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average Debt Service to Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average Interest Coverage	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average Downpayment or Borrower Equity % to Loan	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average Revenue or Household Income	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Average Borrower Total Assets	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Average Years in Business	-	-	-	-	-	-	-	-	-	-
Average Years as Customer	-	-	-	-	-	-	-	-	-	-

This second page of the SPV Aggregated Portfolio data is in the chart (below). It shows loan volume reaching 4,622 CDFI loans amounting to $1.95 billion capitalized by the Source over the 10-year period. The loans outstanding at the end of the period amount to $964 million, generating annual revenue of $59 million.

The breakdown of the portfolio shows loans to new buildings or businesses amounting to $423mm in the 10th year, loans to existing buildings or businesses amounting to $403 million, and loans involving rehab or development/acquisition at $137 million. The CDFIs are originating $499mm in new loans to be sold to the SPVs, and selling $464mm in existing loans. Each of these segments has a distinct risk profile. All of the loans have senior liens or claims. All of the loans are made in low-income communities and/or to low-income customers. The AMI data were not requested in the survey.

It is worth noting here that the CDFIs participating on the Platform would be able to originate only a fraction of this loan volume if they were not participating on the Platform.

AGGREGATE PORTFOLIO OF SPV LOANS	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
$ New Building or New Business Loans o/s	$26,760,374	$64,622,053	$102,958,287	$145,787,966	$183,358,516	$225,636,777	$275,289,080	$324,082,728	$373,247,911	$423,598,396
% New Building or New Business Loan o/s to total Loans	26%	30%	32%	35%	37%	39%	41%	42%	43%	44%
$ Existing Building or Existing Business Loans	$31,040,792	$68,611,279	$106,978,560	$144,793,042	$183,611,188	$225,323,057	$268,563,360	$312,285,294	$358,039,416	$403,726,474
% New Building or New Business Loan o/s to total Loans	30%	32%	34%	35%	37%	39%	40%	40%	41%	42%
$ Rehab Building or Business Acquisition Loans	$46,875,309	$82,571,886	$109,135,445	$125,563,597	$130,879,465	$132,205,601	$133,502,977	$134,769,743	$136,003,930	$137,203,443
% New Building or New Business Loan o/s to total Loans	45%	38%	34%	30%	26%	23%	20%	17%	16%	14%
$ Senior Lien Loans	$104,676,475	$215,805,218	$319,072,293	$416,144,605	$497,849,169	$583,165,435	$677,355,418	$771,137,765	$867,291,258	$964,528,313
% Senior Lien Loans o/s to total Loans	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
$ Subordinate Lien Loans o/s to total Loans	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
% Subordinate Lien Loans o/s to total Loans	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
$ New Loans o/s	$45,548,166	$101,027,332	$150,698,623	$195,126,534	$231,359,062	$274,191,002	$327,312,148	$382,571,425	$440,792,380	$499,851,699
% New Loans o/s to total Loans o/s	44%	47%	47%	47%	46%	47%	48%	50%	51%	52%
$ Existing Loans o/s	$59,128,309	$114,777,886	$168,373,669	$221,018,071	$266,490,108	$308,974,433	$350,043,270	$388,566,340	$426,498,878	$464,676,614
% Existing Loans o/s to total Loans o/s	56%	53%	53%	53%	54%	53%	52%	50%	49%	48%
$ Low Income Community Loans o/s	$104,676,475	$215,805,218	$319,072,293	$416,144,605	$497,849,169	$583,165,435	$677,355,418	$771,137,765	$867,291,258	$964,528,313
% Low Income Community Loans o/s to total Loans o/s	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
$ Non Low Income Community Loans o/s	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
% Non Low Income Community Loans o/s to total Loans o/s	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Average AMI% (Borrower)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Loan Volume #	202	245	287	335	389	453	532	621	727	831
Loan Volume $	$114,968,790	$133,468,790	$153,068,790	$170,915,790	$184,915,790	$201,268,790	$220,915,790	$238,462,790	$258,109,790	$276,756,790
Cumulative Loan O/S $	$104,676,475	$215,805,218	$319,072,293	$416,144,605	$497,849,169	$583,165,435	$677,355,418	$771,137,765	$867,291,258	$964,528,313
Loan Revenues $	$7,655,703	$14,330,791	$21,230,269	$27,672,529	$33,348,332	$38,322,338	$43,654,817	$49,011,514	$54,314,040	$59,401,416
Charge-offs $	$6,250	$35,625	$163,287	$354,536	$475,322	$516,047	$559,622	$606,772	$660,797	$720,372
Charge-off %	0.01%	0.04%	0.12%	0.20%	0.25%	0.26%	0.26%	0.27%	0.28%	0.29%

The charge-offs come in under 0.30%, an unusually low figure for even conventional lenders including commercial banks. These charge-off figures are drawn not from the surveys but from actual historical performance of the participating CDFIs. As noted earlier, CDFIs do not charge loans off under the same protocols used by conventional lenders: because the mission is to help the borrower succeed, accelerations, charge-offs, and foreclosures are typically not undertaken until the loan is clearly non-remediable. Prior to that determination, vigorous efforts are made to assist the borrower. This understates charge-offs relative to conventional lenders. On the other hand, the work done by the CDFIs to remedy borrower problems also produces a higher level of repair and recovery. While it is likely that the participating CDFIs will choose to buy troubled loans back from the SPV for the reasons outlined in the Delegated Authority section above, it is not a requirement. In general, charge-offs are based on the CDFI policies and confirmed as necessary by external accounting firms as part of the annual external financial statement audit. This charge-off loss rate, demonstrated to be relatively low, is a summary metric of potential credit risk exposure to the investor in the LP initially and generally to the preferred as well as common shareholder as the track record is developed.

The perception of risk in the markets served by CDFIs is presently a key deterrent for the investing public. The charge-off percentage will be a key focus for all stakeholders in the CDFI Equity Project as it represents actual credit losses on problem loans including those loans submitted to the SPVs. For the CDFI sector the ability to demonstrate the quality of the credit they underwrite and manage by way of a market compatible vehicle can be a gamechanger: the quality of CDFI lending to low-income constituencies will finally be documented through a channel that disseminates it to investors. The investor who enters early also benefits: the investment in the misunderstood sector accelerates in value as the quality is recognized, which raises the price as well as the expected distributions.

One of the notable conclusions that came out of the aggregation process was that the need for an intermediary was even more of an imperative than originally thought. As part of the data gathering, it became evident that in addition to economies of scale, the differences in policies and procedures among the participating CDFIs essentially *required* the existence of a common intermediary Platform—if the integrity of those differences were

to be supported and maintained. This served as an additional compelling feature of creating the intermediary Platform, along with the satisfaction of achieving the objectives of asset aggregation and the separation of investor expectations from the management of street-level or organization CDFI lending activity.

Pro Formas for the Aggregate SPV Financials Stage One Source LP

The aggregated Operating Statement, Balance Sheet, and Cash Flow that follow derive directly from the Surveys submitted by the 10 participating CDFIs.

In the Operating Statement for the (virtual) Aggregated Portfolio, the Total Preferred Dividends in line 16 represent the dividend revenues that go to the Source LP Platform based on its purchases of the SPV preferreds.

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
OPERATING STATEMENT						**TOTALS**					
Income from Short Term Investments	1	$21,661	$21,661	$49,438	$68,876	$95,748	$115,621	$184,218	$209,901	$229,933	$270,373
Interest Revenue from Loans	2	$6,094,168	$12,655,683	$19,463,884	$25,746,619	$31,257,913	$36,019,191	$41,024,660	$46,053,165	$50,932,930	$55,611,014
Origination Fees	3	$1,694,568	$1,923,760	$2,156,077	$2,458,460	$2,761,402	$3,101,153	$3,556,844	$4,012,535	$4,558,226	$5,083,917
Management Fees	4	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Revenues	5										
Total Revenues	6	$7,810,397	$14,601,104	$21,669,399	$28,273,954	$34,115,063	$39,235,964	$44,765,722	$50,275,601	$55,721,089	$60,965,304
Staff costs for SPV (paid to staff or to CDFI Parent)	7	$762,737	$1,184,740	$1,639,152	$2,041,562	$2,383,142	$2,774,682	$3,238,589	$3,738,624	$4,300,863	$4,918,187
Non-staff costs paid to CDFI parent	8	$1,549,327	$3,173,865	$4,666,398	$6,051,932	$7,192,870	$8,378,128	$9,708,430	$11,053,688	$12,448,554	$13,873,717
Professional fees for SPV-specific services	9	$510,000	$520,200	$530,604	$541,216	$552,040	$563,081	$574,343	$585,830	$597,546	$609,497
Provision for Losses	10	$2,959,126	$3,205,208	$3,079,955	$3,103,496	$2,755,031	$2,964,081	$3,426,467	$3,508,988	$3,658,458	$3,774,658
Interest Expense	11	$2,063,621	$4,255,561	$6,273,043	$8,134,695	$9,898,462	$11,293,811	$12,966,977	$14,636,404	$16,365,388	$18,605,504
Total Expenses	12	$7,844,811	$12,339,574	$16,189,152	$19,872,901	$22,781,545	$25,973,783	$29,914,805	$33,523,534	$37,370,809	$41,781,564
Net Profit before Tax and Dividends	13	-$34,415	$2,261,529	$5,480,246	$8,401,053	$11,333,519	$13,262,181	$14,850,917	$16,752,067	$18,350,280	$19,183,741
SPV Unrelated Business Income Taxes	14	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Profit After Tax	15	-$34,415	$2,261,529	$5,480,246	$8,401,053	$11,333,519	$13,262,181	$14,850,917	$16,752,067	$18,350,280	$19,183,741
Total Preferred Dividends	16	$1,261,958	$2,595,332	$3,834,351	$4,999,017	$5,441,123	$7,002,824	$8,132,866	$9,258,002	$10,411,576	$10,536,106
Net Profit after Tax and Dividends	17	-$1,296,372	-$333,803	$1,645,896	$3,402,036	$5,892,396	$6,259,357	$6,718,051	$7,494,065	$7,938,704	$8,647,635
Total Operating Expenses	18	$2,822,064	$4,878,806	$6,836,155	$8,634,710	$10,128,052	$11,715,892	$13,521,362	$15,378,142	$17,346,964	$19,401,402
Total Financing Expenses (Interest, Taxes, Dividends	19	$3,325,579	$6,850,894	$10,107,393	$13,133,712	$15,339,585	$18,296,635	$21,099,843	$23,894,406	$26,776,963	$29,141,610
Operating Profit (Before Interest and Losses) to Rev	20	64%	67%	68%	69%	70%	70%	70%	69%	69%	68%
Net Profit Before Tax and Divs to Revenues	21	0%	15%	25%	30%	33%	34%	33%	33%	33%	31%
Net Profit After Tax to Revenues	22	0%	15%	25%	30%	33%	34%	33%	33%	33%	31%
Net Profit After Tax and Divs to Revenues	23	-17%	-2%	8%	12%	17%	16%	15%	15%	14%	14%
Net Profit After Tax to Avg. Assets	24	0%	1%	2%	2%	2%	2%	2%	2%	2%	2%
Net Profit After Tax and Divs to Avg. Assets	25	-1%	0%	1%	1%	1%	1%	1%	1%	1%	1%
Net Profit After Tax as % of Common Stock	26	0%	9%	16%	19%	22%	22%	21%	21%	21%	19%
SPV Preferred Stock Dividend Coverage (NPAT)	27	0%	87%	143%	168%	208%	189%	183%	181%	176%	182%

The losses in line 15 and drop in cash are easily adjustable: the big expenses for the SPVs consist of the staff costs and interest expenses paid to their parent CDFIs. The CDFIs must keep the equity in the SPV at least at 50% of the value of the SPV preferred stock regardless of losses, and must have adequate cash to conduct business and pay dividends. But generally speaking, there is no reason for the SPVs to be run at a robust profit or tie up cash that isn't needed for the parent CDFI loan originations.

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BALANCE SHEET											
Cash	28	$187,361	$340,120	$282,679	$224,453	$307,237	$248,201	$200,955	$217,995	$243,807	$232,772
Short Term Investments	29	$1,310,000	$2,860,000	$4,260,000	$5,960,000	$6,960,000	$10,285,000	$11,960,000	$13,735,000	$15,860,000	$17,935,000
Accounts Receivable	30	$953,525	$1,993,316	$3,204,677	$4,080,104	$4,743,432	$5,361,902	$6,159,788	$7,061,024	$7,954,469	$8,825,318
Current Loans Receivable	31	$10,705,166	$22,606,860	$38,206,441	$56,400,067	$66,729,741	$75,164,624	$85,824,230	$95,491,467	$105,467,516	$116,386,188
Current Assets	32	$13,156,051	$27,800,297	$45,953,797	$66,664,624	$78,740,410	$91,059,726	$104,144,973	$116,505,485	$129,525,792	$143,379,278
Senior Loans	33	$94,457,959	$193,670,836	$281,322,783	$360,184,714	$431,541,566	$508,404,047	$591,914,607	$676,008,678	$762,163,784	$848,458,702
Subordinated Loans	34										
Loss Reserve	35	-$2,952,876	-$6,122,459	-$9,038,627	-$11,786,838	-$14,065,547	-$16,512,830	-$19,379,174	-$22,280,890	-$25,278,050	-$28,332,085
Net Loans	36	$91,505,083	$187,548,377	$272,284,156	$348,397,876	$417,476,019	$491,891,218	$572,535,432	$653,727,788	$736,885,734	$820,126,617
Total Assets	**37**	**$104,661,135**	**$215,348,674**	**$318,237,953**	**$415,062,500**	**$496,216,429**	**$582,950,944**	**$676,680,405**	**$770,233,273**	**$866,411,526**	**$963,505,894**
Accounts Payable	38	$755,916	$1,355,859	$1,907,823	$2,399,617	$2,772,359	$3,136,368	$3,533,194	$3,933,129	$4,347,901	$4,781,894
Accrued Expenses	39	$37,617	$73,659	$107,881	$141,164	$166,918	$204,285	$245,286	$291,510	$344,392	$392,572
Taxes Payable	40	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Short Term Debt	41	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Portion of Long Term Debt	42	$8,469,587	$20,157,942	$33,311,073	$46,872,332	$61,357,080	$66,289,811	$72,244,907	$80,321,757	$89,836,167	$111,612,148
Current Liabilities	43	$9,263,120	$21,587,460	$35,326,777	$49,413,113	$64,296,357	$69,630,465	$76,023,386	$84,546,395	$94,528,461	$116,786,614
Long Term Debt	44	$63,643,618	$128,122,609	$184,569,210	$234,746,284	$279,587,500	$320,170,457	$372,537,896	$421,945,297	$471,363,434	$525,727,280
Total Liabilities	45	$72,906,738	$149,710,068	$219,895,987	$284,159,398	$343,883,857	$389,800,922	$448,561,282	$506,491,693	$565,891,895	$642,513,895
SPV Preferred Stock - SOURCE Controlled	46	$2,103,263	$4,325,554	$6,390,584	$8,331,696	$9,965,426	$11,671,373	$13,554,777	$15,430,003	$17,352,626	$19,296,898
SPV Preferred Stock - SPV Controlled	47	$18,929,363	$38,929,985	$57,515,260	$74,985,260	$80,719,952	$105,042,361	$121,992,991	$138,870,026	$156,173,634	$156,304,872
CDFI Common Equity A	48	$10,516,313	$21,627,770	$31,952,922	$41,658,478	$49,827,131	$58,356,867	$67,773,884	$77,150,014	$86,763,130	$96,484,489
CDFI Common Equity B	49	$1,501,831	$2,385,472	$2,467,479	$2,509,912	$2,509,912	$2,509,912	$2,509,912	$2,509,912	$2,509,912	$2,537,777
Total CDFI Common Equity	50	$12,018,143	$24,013,242	$34,420,401	$44,168,390	$52,337,042	$60,866,779	$70,283,795	$79,659,926	$89,273,042	$99,022,266
Retained Earnings	51	($1,296,372)	($1,630,175)	$15,720	$3,417,756	$9,310,152	$15,569,509	$22,287,560	$29,781,625	$37,720,329	$46,367,964
Total Equity	52	$31,754,396	$65,638,606	$98,341,966	$130,903,102	$152,332,572	$193,150,022	$228,119,123	$263,741,580	$300,519,631	$320,992,000
Total Liabilities & Equity	**53**	**$104,661,135**	**$215,348,674**	**$318,237,953**	**$415,062,500**	**$496,216,429**	**$582,950,944**	**$676,680,405**	**$770,233,273**	**$866,411,526**	**$963,505,894**
Reconciliation		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Ratio	54	1.42	1.29	1.30	1.35	1.22	1.31	1.37	1.38	1.37	1.23
Quick Ratio	55	0.16	0.15	0.13	0.13	0.11	0.15	0.16	0.17	0.17	0.16
Debt to Equity	56	2.27	2.26	2.22	2.15	2.24	2.00	1.95	1.90	1.87	1.99
Debt to SPV Preferred	57	34.29	34.28	34.09	33.80	34.21	33.11	32.81	32.55	32.34	33.03
SPV Preferred % to Equity	58	0.66	0.66	0.65	0.64	0.60	0.60	0.59	0.59	0.58	0.55
Loss Reserve to Total Loans	59	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%
Provision of Losses to Loss Reserve	60	1.00	0.52	0.34	0.26	0.20	0.18	0.18	0.16	0.14	0.13
Charge-offs to Provision for Losses	61	0.00	0.01	0.05	0.11	0.17	0.17	0.16	0.17	0.18	0.19
Delinquent loans to Total Loans	62										
Delinquent Loans to Loss Reserve	63										
Cash and Investments less Debt $ (Liquid Collateral)	64	($70,615,845)	($145,080,430)	($213,337,604)	($275,434,164)	($333,677,343)	($375,927,067)	($432,621,848)	($488,314,059)	($545,095,794)	($619,171,657)
SPV Preferred Risk Asset Coverage %	65	150.98%	151.75%	153.89%	157.11%	167.98%	165.49%	168.29%	170.93%	173.18%	182.80%
Cash and Investments less ST Debt $ (Liquid Collate	66	$1,497,361	$3,200,120	$4,542,679	$6,184,453	$7,267,237	$10,533,201	$12,160,955	$13,952,995	$16,103,807	$18,167,772
Asset Liquidation Book Value	67	$31,754,396	$65,638,606	$98,341,966	$130,903,102	$152,332,572	$193,150,022	$228,119,123	$263,741,580	$300,519,631	$320,992,000
% Risk Assets must shrink for SPV Preferred Defaul	68	28.67%	28.76%	29.18%	29.80%	28.98%	31.26%	31.87%	32.40%	32.82%	31.39%
Common Equity % Total Assets	69	11.5%	11.2%	10.8%	10.6%	10.5%	10.4%	10.4%	10.3%	10.3%	10.3%
Total Liabilities to Equity	70	2.30	2.28	2.24	2.17	2.26	2.02	1.97	1.92	1.88	2.00

The SPV preferred stock shown in lines 46 and 47 represent the bulk of the assets on the Source LP Platform balance sheet. About 10% of the total is controlled by the Source LP, meaning that it has the right to call for that stock or interest to be redeemed by the CDFI. This is a useful tool in the event of poor performance on the part of an SPV, or a special need for liquidity on behalf of Source LP investors. The 90% remaining Preferred stock or interest cannot be called by the Source LP.

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CASH FLOW											
		Start with 0									
Beginning Cash	71	0	$187,361	$340,120	$282,679	$224,453	$307,237	$248,201	$200,955	$217,995	$243,807
Net Profit After Tax and Dividends	72	($1,296,372)	($333,803)	$1,645,896	$3,402,036	$5,892,396	$6,259,357	$6,718,051	$7,494,065	$7,938,704	$8,647,635
Provision for Losses	73	$2,959,126	$3,205,208	$3,079,955	$3,103,496	$2,755,031	$2,964,081	$3,426,467	$3,508,988	$3,658,458	$3,774,658
Non-cash Items	74	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Sources from Ops	75	$1,662,754	$2,871,404	$4,725,851	$6,505,532	$8,647,427	$9,223,438	$10,144,518	$11,003,053	$11,597,162	$12,422,292
Accounts Receivable	76	($953,525)	($1,039,791)	($1,211,361)	($875,427)	($663,328)	($618,470)	($797,886)	($901,236)	($893,445)	($870,850)
Accounts Payable	77	$755,916	$599,942	$551,964	$491,794	$372,742	$364,009	$396,825	$399,935	$414,772	$433,993
Accrued Expenses	78	$37,617	$36,043	$34,222	$33,282	$25,754	$37,368	$41,001	$46,224	$52,883	$48,179
Taxes Payable	79	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Uses	80	(159,992)	(403,806)	(625,175)	(350,351)	(264,832)	(217,094)	(360,060)	(455,077)	(425,790)	(388,677)
Net Operating Sources/(Uses)	81	1,502,762	2,467,598	4,100,676	6,155,181	8,382,596	9,006,344	9,784,458	10,547,976	11,171,372	12,033,615
Gross Loan Originations	82	($115,468,790)	($133,468,790)	($153,068,790)	($170,915,790)	($184,915,790)	($201,268,790)	($220,915,790)	($238,462,790)	($258,109,790)	($276,756,790)
Loan Principal Amortization	83	$10,199,415	$21,516,436	$47,537,002	$69,382,001	$96,426,363	$108,913,049	$119,398,923	$137,062,631	$154,040,758	$171,300,999
Prepayments	84	$100,000	$802,158	$2,116,474	$4,122,947	$6,326,579	$6,541,579	$6,786,579	$7,031,579	$7,276,579	$7,521,579
Changes in Loans	85	($105,169,375)	($111,150,196)	($103,415,315)	($97,410,842)	($82,162,848)	($85,814,162)	($94,730,288)	($94,368,580)	($96,792,453)	($97,934,212)
New Short Term Debt	86	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Short Term Debt: Amortization	87	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New Long Term Debt	88	$80,375,000	$93,650,000	$99,150,000	$106,950,000	$117,000,000	$117,550,000	$136,850,000	$142,700,000	$153,300,000	$182,500,000
Long Term Debt: Amortization	89	($8,261,794)	($17,482,655)	($29,550,268)	($43,211,666)	($57,674,037)	($72,034,312)	($78,527,465)	($85,215,749)	($94,367,453)	($106,360,172)
New SPV Preferreds Issued	90	$21,032,625	$22,222,914	$20,650,306	$19,411,111	$16,337,305	$26,028,356	$18,834,033	$18,752,262	$19,226,231	$19,442,718
SPV Controlled SPV Preferreds Redeemed	91	$0	$0	$0	$0	($8,968,884)	$0	$0	$0	$0	($17,367,208)
SOURCE Controlled SPV Preferred Redeemed	92	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New Common Stock A Issued	93	$10,516,313	$11,111,457	$10,325,153	$9,705,556	$8,168,653	$8,529,736	$9,417,017	$9,376,131	$9,613,116	$9,721,359
Total Financing	94	$103,662,143	$109,501,716	$100,575,191	$92,855,001	$74,863,037	$80,073,781	$86,573,584	$85,612,643	$87,771,894	$87,936,696
Cash Flow Before Sweep and Injection	95	($4,470)	$819,118	$1,260,552	$1,599,341	$1,082,784	$3,265,964	$1,627,754	$1,792,040	$2,150,812	$2,036,099
New Common Stock B Issued	96	$1,501,831	$883,641	$82,007	$42,433	$0	$0	$0	$0	$0	$27,865
Cash Flow after Common Stock B Purchased	97	$1,497,361	$1,702,760	$1,342,559	$1,641,774	$1,082,784	$3,265,964	$1,627,754	$1,792,040	$2,150,812	$2,063,965
Short Term Investments (Increase)	98	($1,310,000)	($1,550,000)	($1,400,000)	($1,700,000)	($1,000,000)	($3,325,000)	($1,675,000)	($1,775,000)	($2,125,000)	($2,075,000)
Short Term Investments Decrease	99	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Change in Cash	100	$187,361	$152,760	($57,441)	($58,226)	$82,784	($59,036)	($47,246)	$17,040	$25,812	($11,035)
Ending Cash	101	$187,361	$340,120	$282,679	$224,453	$307,237	$248,201	$200,955	$217,995	$243,807	$232,772
Ending Short Term Investments	102	$1,310,000	$2,860,000	$4,260,000	$5,960,000	$6,960,000	$10,285,000	$11,960,000	$13,735,000	$15,860,000	$17,935,000
Reconciliation of Cash Flow and Balance Sheet											
Ending Cash	96	$187,361	$340,120	$282,679	$224,453	$307,237	$248,201	$200,955	$217,995	$243,807	$232,772
Free Cash Flow $ (NPBT plus changes in WC)+prin	97	$12,964,134	$26,579,367	$55,472,028	$80,536,200	$110,250,081	$124,922,217	$137,316,247	$156,868,609	$175,623,705	$193,870,720
Years to Repay Debt	98	5.56	5.58	3.93	3.50	3.09	3.09	3.24	3.20	3.20	3.29
FCF % to SPV Preferred Purchases	99	61.6%	119.6%	268.6%	414.9%	674.8%	479.9%	729.1%	836.5%	913.5%	997.1%
SPV Redemptions to SPVs Preferred Issued (Annual	100	0%	0%	0%	0%	55%	0%	0%	0%	0%	89%

Pro Formas for the Aggregate SPV Financials Stage Two CDFI Equity Fund

The Operating Statement, Balance Sheet, and Cash Flow for Stage Two below are an extrapolation of the data submitted in the Surveys by the 10 participating CDFIs. The unit loan volume is the only change: these begin with the unit volume assumed in the 10th year in each of the CDFI Surveys as tallied in the Stage One Source LP pro formas. The Stage Two pro formas add annually to that number in the unit volume equal to the consecutive annual unit loan volume in the Surveys. Nothing else changes: the loan sizes, terms, loss rates and funding mechanisms, and rates remain the same.

		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
OPERATING STATEMENT		TOTALS									
Income from Short Term Investments	1	$30,540	$30,540	$68,905	$111,383	$146,418	$218,290	$238,055	$258,695	$278,158	$294,355
Interest Revenue from Loans	2	$14,848,844	$29,719,345	$44,226,782	$56,211,473	$66,729,135	$75,537,451	$84,287,452	$93,543,692	$103,384,358	$113,905,776
Origination Fees	3	$5,173,917	$5,833,109	$6,905,426	$8,217,809	$9,730,751	$11,520,502	$13,716,193	$16,261,884	$19,317,575	$22,853,266
Management Fees	4	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Revenues	5										
Total Revenues	6	$20,053,301	$35,582,994	$51,201,113	$64,540,664	$76,606,304	$87,276,243	$98,241,700	$110,064,271	$122,980,091	$137,053,397
Staff costs for SPV (paid to staff or to CDFI Parent)	7	$2,071,507	$2,836,170	$3,703,189	$4,579,162	$5,459,083	$6,467,940	$7,649,453	$8,982,491	$10,520,055	$12,283,292
Non-staff costs paid to CDFI parent	8	$3,427,005	$6,716,498	$9,556,832	$12,168,129	$14,417,496	$16,908,258	$19,753,951	$22,941,483	$26,569,306	$30,673,747
Professional fees for SPV-specific services	9	$510,000	$520,200	$530,604	$541,216	$552,040	$563,081	$574,343	$585,830	$597,546	$609,497
Provision for Losses	10	$7,909,201	$7,978,423	$6,460,160	$6,390,572	$5,788,615	$6,355,507	$7,214,748	$7,773,230	$8,539,252	$9,390,958
Interest Expense	11	$5,031,868	$10,014,257	$14,037,930	$17,706,786	$20,855,774	$24,184,729	$27,736,392	$31,487,111	$35,567,032	$40,078,563
Total Expenses	12	$18,949,581	$28,065,547	$34,288,715	$41,385,865	$47,073,009	$54,479,516	$62,928,888	$71,770,144	$81,793,191	$93,036,057
Net Profit before Tax and Dividends	13	$1,103,720	$7,517,447	$16,912,398	$23,154,799	$29,533,295	$32,796,728	$35,312,812	$38,294,127	$41,186,899	$44,017,340
SPV Unrelated Business Income Taxes	14	$545,132	$1,954,536	$4,397,223	$6,020,248	$7,678,657	$8,527,149	$9,181,331	$9,956,473	$10,708,594	$11,444,508
Net Profit After Tax	15	$558,588	$5,562,911	$12,515,174	$17,134,551	$21,854,639	$24,269,578	$26,131,481	$28,337,654	$30,478,305	$32,572,832
Total Preferred Dividends	16	$3,381,667	$6,728,687	$9,439,730	$11,960,703	$14,098,723	$16,382,095	$18,874,914	$21,469,371	$24,279,251	$27,325,225
Net Profit after Tax and Dividends	17	-$2,823,079	-$1,165,777	$3,075,445	$5,173,848	$7,755,916	$7,887,483	$7,256,567	$6,868,283	$6,199,055	$5,247,607
Total Operating Expenses	18	$6,008,511	$10,072,868	$13,790,625	$17,288,507	$20,428,619	$23,939,280	$27,977,748	$32,509,803	$37,686,907	$43,566,536
Total Financing Expenses (Interest, Taxes, Dividends)	19	$8,958,667	$18,697,480	$27,874,883	$35,687,737	$42,633,154	$49,093,974	$55,792,637	$62,912,955	$70,554,876	$78,848,296
Operating Profit (Before Interest and Losses) to Revenues	20	70.0%	71.7%	73.1%	73.2%	73.3%	72.6%	71.5%	70.5%	69.4%	68.2%
Net Profit Before Tax and Divs to Revenues	21	5.5%	21.1%	33.0%	35.9%	38.6%	37.6%	35.9%	34.8%	33.5%	32.1%
Net Profit After Tax to Revenues	22	2.8%	15.6%	24.4%	26.5%	28.5%	27.8%	26.6%	25.7%	24.8%	23.8%
Net Profit After Tax and Divs to Revenues	23	-14.1%	-3.3%	6.0%	8.0%	10.1%	9.0%	7.4%	6.2%	5.0%	3.8%
Net Profit After Tax to Avg. Assets	24	0.2%	1.4%	2.0%	2.1%	2.2%	2.1%	1.9%	1.8%	1.8%	1.7%
Net Profit After Tax and Divs to Avg. Assets	25	-1.1%	-0.3%	0.5%	0.6%	0.8%	0.7%	0.5%	0.4%	0.4%	0.3%
Net Profit After Tax as % of Common Stock	26	1.9%	9.9%	16.2%	17.7%	19.3%	18.6%	17.4%	16.7%	15.9%	15.1%
SPV Preferred Stock Dividend Coverage (NPAT)	27	16.5%	82.7%	132.6%	143.3%	155.0%	148.1%	138.4%	132.0%	125.5%	119.2%
		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040

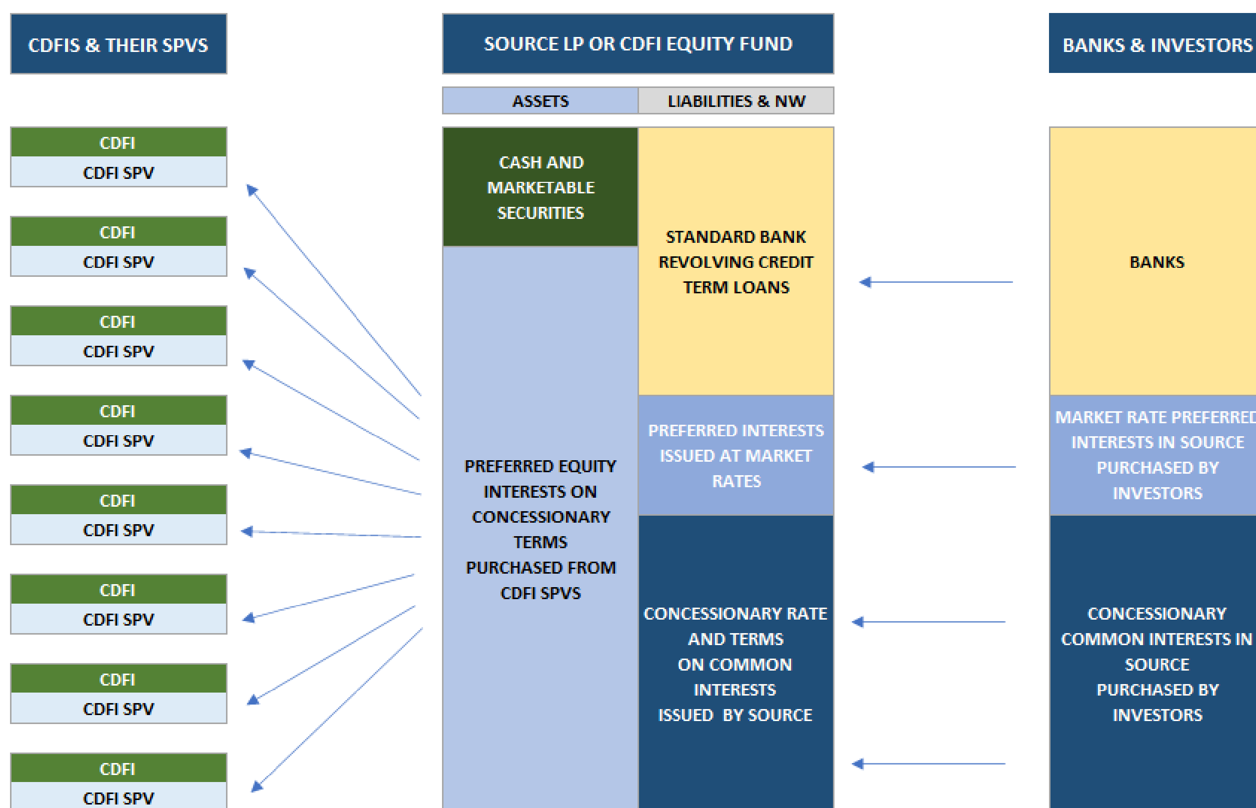
BALANCE SHEET											
Cash	28	$243,326	$206,402	$185,950	$201,991	$132,802	$165,571	$125,583	$168,460	$157,559	$219,020
Short Term Investments	29	$1,800,000	$4,325,000	$7,100,000	$9,200,000	$13,575,000	$15,350,000	$17,000,000	$18,625,000	$19,650,000	$23,100,000
Accounts Receivable	30	$3,106,595	$5,969,501	$8,712,283	$10,145,344	$11,324,708	$12,413,766	$13,686,313	$15,111,397	$16,623,617	$18,227,074
Current Loans Receivable	31	$21,900,018	$47,472,807	$87,415,955	$139,283,377	$164,548,328	$194,027,896	$230,441,598	$266,729,050	$308,595,316	$357,725,605
Current Assets	32	$27,049,939	$57,973,710	$103,414,188	$158,830,712	$189,580,837	$221,957,233	$261,253,494	$300,633,907	$345,026,493	$399,271,699
Senior Loans	33	$238,228,233	$470,118,527	$638,717,110	$780,770,731	$919,968,821	$1,066,133,262	$1,221,474,847	$1,384,761,018	$1,559,039,339	$1,744,214,787
Subordinated Loans	34										
Loss Reserve	35	-$7,897,326	-$15,800,749	-$21,922,422	-$27,616,534	-$32,460,751	-$37,759,886	-$43,790,412	-$50,229,669	-$57,258,924	-$64,940,159
Net Loans	36	$230,330,906	$454,317,778	$616,794,688	$753,154,197	$887,508,070	$1,028,373,376	$1,177,684,435	$1,334,531,349	$1,501,780,415	$1,679,274,628
Total Assets	**37**	**$257,380,845**	**$512,291,488**	**$720,208,876**	**$911,984,909**	**$1,077,088,907**	**$1,250,330,609**	**$1,438,937,929**	**$1,635,165,256**	**$1,846,806,908**	**$2,078,546,327**
Accounts Payable	38	$1,213,428	$2,013,491	$2,681,048	$3,252,709	$3,672,739	$4,077,737	$4,509,134	$4,949,320	$5,407,331	$5,885,363
Accrued Expenses	39	$209,308	$406,197	$610,440	$817,415	$1,026,403	$1,257,063	$1,529,059	$1,850,765	$2,231,398	$2,678,637
Taxes Payable	40	$42,248	$151,477	$340,785	$466,569	$595,096	$660,854	$711,553	$771,627	$829,916	$886,949
Short Term Debt	41	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Portion of Long Term Debt	42	$17,342,900	$45,129,564	$76,044,643	$103,584,404	$134,077,495	$150,258,686	$168,103,673	$194,600,434	$222,970,793	$279,484,192
Current Liabilities	43	$18,807,884	$47,700,728	$79,676,916	$108,121,098	$139,371,734	$156,254,341	$174,853,420	$202,172,145	$231,439,437	$288,935,141
Long Term Debt	44	$160,298,150	$308,748,428	$418,880,197	$518,842,471	$595,595,426	$691,373,836	$796,598,923	$898,767,154	$1,010,059,010	$1,107,511,149
Total Liabilities	45	$179,106,034	$356,449,156	$498,557,113	$626,963,569	$734,967,160	$847,628,177	$971,452,343	$1,100,939,300	$1,241,498,447	$1,396,446,290
SPV Preferred Stock - Fund Controlled	46	$5,202,565	$10,351,827	$14,522,661	$18,401,082	$21,690,343	$25,203,223	$29,038,329	$33,029,801	$37,352,693	$42,038,808
SPV Preferred Stock - SPV Controlled	47	$46,823,085	$93,166,440	$130,703,952	$165,609,739	$195,213,087	$226,829,008	$261,344,960	$297,268,212	$336,174,238	$378,349,271
CDFI Common Equity A	48	$26,012,825	$51,759,133	$72,613,306	$92,005,411	$108,451,715	$126,016,116	$145,191,644	$165,149,007	$186,763,465	$210,194,039
CDFI Common Equity B	49	$3,059,415	$4,553,787	$4,725,254	$4,744,671	$4,750,249	$4,750,249	$4,750,249	$4,750,249	$4,790,323	$6,042,571
Total CDFI Common Equity	50	$29,072,240	$56,312,921	$77,338,561	$96,750,081	$113,201,964	$130,766,365	$149,941,894	$169,899,256	$191,553,788	$216,236,610
Retained Earnings	51	($2,823,079)	($3,988,855)	($913,411)	$4,260,437	$12,016,353	$19,903,836	$27,160,403	$34,028,687	$40,227,741	$45,475,348
Total Equity	52	$78,274,811	$155,842,332	$221,651,763	$285,021,340	$342,121,746	$402,702,432	$467,485,586	$534,225,956	$605,308,461	$682,100,037
Total Liabilities & Equity	**53**	**$257,380,845**	**$512,291,488**	**$720,208,876**	**$911,984,909**	**$1,077,088,907**	**$1,250,330,609**	**$1,438,937,929**	**$1,635,165,256**	**$1,846,806,908**	**$2,078,546,327**
Reconciliation		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Ratio	54	1.44	1.22	1.30	1.47	1.36	1.42	1.49	1.49	1.49	1.38
Quick Ratio	55	0.11	0.09	0.09	0.09	0.10	0.10	0.10	0.09	0.09	0.08
Debt to Equity	56	2.27	2.27	2.23	2.18	2.13	2.09	2.06	2.05	2.04	2.03
Debt to SPV Preferred	57	34.14	34.19	34.08	33.83	33.64	33.39	33.22	33.10	33.01	32.99
SPV Preferred % to Equity	58	0.07	0.07	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Loss Reserve to Total Loans	59	3.0%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.1%	3.1%
Provision of Losses to Loss Reserve	60	1.00	0.50	0.29	0.23	0.18	0.17	0.16	0.15	0.15	0.14
Charge-offs to Provision for Losses	61	0.00	0.01	0.05	0.11	0.16	0.17	0.16	0.17	0.18	0.18
Delinquent loans to Total Loans	62										
Delinquent Loans to Loss Reserve	63										
Cash and Investments less Debt $ (Liquid Collateral)	64	($175,597,725)	($349,346,590)	($487,638,890)	($613,024,884)	($715,965,120)	($826,116,951)	($947,577,014)	($1,074,574,129)	($1,213,222,243)	($1,363,676,321)
SPV Preferred Risk Asset Coverage %	65	150.45%	150.55%	152.62%	154.89%	157.73%	159.78%	160.99%	161.74%	162.05%	162.25%
Cash and Investments less ST Debt $ (Liquid Collateral)	66	$2,043,326	$4,531,402	$7,285,950	$9,401,991	$13,707,802	$15,515,571	$17,125,583	$18,793,460	$19,807,559	$23,319,020
Asset Liquidation Book Value	67	$78,274,811	$155,842,332	$221,651,763	$285,021,340	$342,121,746	$402,702,432	$467,485,586	$534,225,956	$605,308,461	$682,100,037
% Risk Assets must shrink for SPV Preferred Default	68	10.41%	10.43%	10.85%	11.32%	11.90%	12.33%	12.58%	12.74%	12.80%	12.85%
Common Equity % Total Assets	69	11.3%	11.0%	10.7%	10.6%	10.5%	10.5%	10.4%	10.4%	10.4%	10.4%
Total Liabilities to Equity	70	2.29	2.29	2.25	2.20	2.15	2.10	2.08	2.06	2.05	2.05

		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
CASH FLOW											
		Start with 0									
Beginning Cash	71	0	$243,326	$206,402	$185,950	$201,991	$132,802	$165,571	$125,583	$168,460	$157,559
Net Profit After Tax and Dividends	72	($2,823,079)	($1,165,777)	$3,075,445	$5,173,848	$7,755,916	$7,887,483	$7,256,567	$6,868,283	$6,199,055	$5,247,607
Provision for Losses	73	$7,909,201	$7,978,423	$6,460,160	$6,390,572	$5,788,615	$6,355,507	$7,214,748	$7,773,230	$8,539,252	$9,390,958
Non-cash Items	74	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Sources from Ops	75	$5,086,123	$6,812,646	$9,535,605	$11,564,420	$13,544,531	$14,242,990	$14,471,315	$14,641,513	$14,738,307	$14,638,565
Accounts Receivable	76	($3,106,595)	($2,862,906)	($2,742,782)	($1,433,061)	($1,179,364)	($1,089,059)	($1,272,547)	($1,425,084)	($1,512,220)	($1,603,457)
Accounts Payable	77	$1,213,428	$800,063	$667,557	$571,661	$420,030	$404,998	$431,397	$440,186	$458,011	$478,032
Accrued Expenses	78	$209,308	$196,888	$204,243	$206,975	$208,988	$230,660	$271,996	$321,705	$380,633	$447,239
Taxes Payable	79	$42,248	$109,229	$189,308	$125,784	$128,527	$65,758	$50,699	$60,073	$58,289	$57,033
Total Uses	80	(1,641,612)	(1,756,725)	(1,681,674)	(528,639)	(421,819)	(387,643)	(518,455)	(603,120)	(615,287)	(621,152)
Net Operating Sources/(Uses)	81	3,444,511	5,055,921	7,853,931	11,035,780	13,122,712	13,855,347	13,952,861	14,038,393	14,123,020	14,017,412
Gross Loan Originations	82	($281,256,790)	($303,956,790)	($340,356,790)	($378,403,790)	($416,603,790)	($461,956,790)	($516,403,790)	($575,750,790)	($645,597,790)	($724,444,790)
Loan Principal Amortization	83	$20,921,665	$45,336,549	$128,805,098	$178,698,339	$243,854,772	$277,649,830	$315,562,702	$366,646,615	$419,451,626	$479,642,751
Prepayments	84	$195,000	$1,082,158	$2,671,474	$5,087,947	$7,341,579	$7,606,579	$7,901,579	$8,196,579	$8,491,579	$8,786,579
Changes in Loans	85	($260,140,125)	($257,538,083)	($208,880,218)	($194,617,503)	($165,407,439)	($176,700,381)	($192,939,509)	($200,907,596)	($217,654,585)	($236,015,460)
New Short Term Debt	86	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Short Term Debt: Amortization	87	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New Long Term Debt	88	$194,600,000	$211,850,000	$206,100,000	$225,000,000	$233,500,000	$272,750,000	$304,300,000	$332,050,000	$374,600,000	$423,400,000
Long Term Debt: Amortization	89	($16,958,950)	($35,613,058)	($65,053,152)	($97,497,965)	($126,253,954)	($160,790,399)	($181,229,926)	($203,385,008)	($234,937,786)	($269,434,461)
New SPV Preferreds Issued	90	$52,025,650	$51,492,617	$41,708,346	$38,784,209	$32,892,608	$35,128,802	$38,351,057	$39,914,725	$43,228,917	$46,861,147
SPV Controlled SPV Preferreds Redeemed	91	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
SOURCE Controlled SPV Preferred Redeemed	92	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New Common Stock A Issued	93	$26,012,825	$25,746,308	$20,854,173	$19,392,104	$16,446,304	$17,564,401	$19,175,529	$19,957,362	$21,614,459	$23,430,574
Total Financing	94	$255,679,526	$253,475,867	$203,609,368	$185,678,348	$156,584,959	$164,652,803	$180,596,660	$188,537,079	$204,505,590	$224,257,260
Cash Flow Before Sweep and Injection	95	($1,016,089)	$993,704	$2,583,081	$2,096,625	$4,300,232	$1,807,769	$1,610,012	$1,667,877	$974,026	$2,259,213
New Common Stock B Issued	96	$3,059,415	$1,494,373	$171,467	$19,416	$5,579	$0	$0	$0	$40,074	$1,252,248
Cash Flow after Common Stock B Purchased	97	$2,043,326	$2,488,077	$2,754,548	$2,116,041	$4,305,810	$1,807,769	$1,610,012	$1,667,877	$1,014,099	$3,511,461
Short Term Investments (Increase)	98	($1,800,000)	($2,525,000)	($2,775,000)	($2,100,000)	($4,375,000)	($1,775,000)	($1,650,000)	($1,625,000)	($1,100,000)	($3,450,000)
Short Term Investments Decrease	99	$0	$0	$0	$0	$0	$0	$0	$0	$75,000	$0
Change in Cash	100	$243,326	($36,923)	($20,452)	$16,041	($69,190)	$32,769	($39,988)	$42,877	($10,901)	$61,461
Ending Cash	101	$243,326	$206,402	$185,950	$201,991	$132,802	$165,571	$125,583	$168,460	$157,559	$219,020
Ending Short Term Investments	102	$1,800,000	$4,325,000	$7,100,000	$9,200,000	$13,575,000	$15,350,000	$17,000,000	$18,625,000	$19,650,000	$23,100,000
Reconciliation of Cash Flow and Balance Sheet											
Ending Cash	96	$243,326	$206,402	$185,950	$201,991	$132,802	$165,571	$125,583	$168,460	$157,559	$219,020
Free Cash Flow $ (NPBT plus changes in WC)+principal amortization	97	$28,292,974	$59,075,693	$150,495,983	$207,715,071	$278,754,864	$316,414,421	$357,571,807	$412,110,853	$468,562,491	$532,429,897
Years to Repay Debt	98	6.28	5.99	3.29	3.00	2.62	2.66	2.70	2.65	2.63	2.61
FCF % to SPV Preferred Purchases	99	54.4%	114.7%	360.8%	535.6%	847.5%	900.7%	932.4%	1032.5%	1083.9%	1136.2%
SPV Redemptions to SPVs Preferred Issued (Annual)	100	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Section III. The Equity Platform

The Equity Flows

The following is a detail of the Funding Flows chart in the Summary. To recap: CDFIs create the SPVs to provide a for-profit entity that issues the equity instrument and receives the cash. In the proposed structure, the CDFI parent creates a 100% owned SPV for this purpose. The Platform—whether as the Stage One Source LP or the Stage Two CDFI Equity Fund—purchases the equity instruments for cash.



The funding flows for the Source LP and the CDFI Equity Fund (C-Corp or Beneficial Corp) are exactly the same.

Functions of the Source LP Platform

The common equity interests of the Source LP are initially provided by private investors on concessionary terms—specifically, a low dividend yield or rate and very limited capacity to resell over the short to medium term. Because of the size of the common equity on the balance sheet (never less than 40% of total assets) these concessions enable the Source LP to accomplish two critical objectives: (i) adjust yields and redemptions lower on the SPV preferreds to better suit the needs of the CDFI constituencies; and (ii) adjust yields/ dividend rates and redemptions upwards to suit the risk/reward appetites of the investors in the Source LP preferreds.

As noted in the Summary, this positive intermediation between the requirements of public market investor, which the Source LP manages, and the financing needs of low-income constituencies, which the participating CDFIs manage, is one of the chief benefits of the proposed structure. It is the central mechanism by which investor constraints are converted into patient capital for CDFIs, *and it is, as noted previously, the primary innovation of this proposal.*

The following chart is the same as the one shown in the Summary. It shows this mechanism at work on the Stage One Source LP platform. The comparisons come from the LLP Scenario I forecasts. There are key distinctions between the terms the intermediary Source LP must accept to attract investors, and the terms the participating CDFIs can get from the Source LP to assist their low-income customers. As the chart indicates, the terms for the Source LP are stricter than those for the CDFI SPVs—though the yield is exactly the same! The concessionary common interests for the Source in terms of yield and liquidity are what makes this possible.

INVESTOR RISK:	ON SOURCE PREFERRED	ON SPV PREFERRED
Investor is:	**Accredited or Institutional Investor**	**The CDFI Equity Source**
Yield	**6.00%**	**6.00%**
Cumulative/Non-cumulative	**Cumulative**	**Cumulative**
Redemption / Repurchase	**5% Quarterly starting in 1Q Year 2**	**10% every 5 years**
Minimum Common Equity Cushion	**0%**	**0%**
Minimum Cash % to Total Assets	**15.00%**	**2.00%**
Minimum Cash % to Total Debt	**33.00%**	**3.00%**

The Stage One financing is going to be a private placement of preferred and common units for the Source LP Platform. The financing enables the Source LP to purchase the preferred units issued by the CDFI SPVs. The most notable part of the Stage One financing is that the Source LP pays the same rate on its preferred interest as the SPVs pay the Source LP on theirs—6%. Though distributions on both are cumulative, the Source LP must redeem its interests at a rate of 5% per quarter or 20% per year to ensure liquidity for its private investors. However, because the bulk of the Source LP funding consists of common equity interests on concessionary terms, the Platform can purchase preferred interests from the SPVs that require redemptions of only 10% every 5 years: the equity that the CDFI SPVs get is more patient than what the Source LP obtains. The Source's concessionary common interests also enable the SPVs to be far more highly leveraged and maintain much lower liquidity—both

essential needs for the CDFIs in pursuit of their low-income lending mission. Despite the costs and the limitations of the Source LP preferreds, the Source LP generates profits and distributions to its investors. This is due largely to the conservative capitalization and the concessionary rates on the Source's common units and availability of the common to support the preferred. It is an innovative but effective way to bridge the large gap between investor expectations and the needs of the community.

Within 5 to 7 years, the performance of the Source LP and the SPV preferred units combine with detailed loan and portfolio performance data to enable a preferred stock rating for the Stage Two C-Corp or Beneficial Corp version of the Source LP. The time period should also be sufficient for the common units to generate progress toward a market yield, so that future SPV financing can be done without subsidy.

The investors and the CDFIs participating in the Source LP may wish for the Stage One partnership to continue or remain after the establishment of the subsequent Stage Two public financing. If this is the case, it will be by common agreement. With the capacity to obtain a preferred stock rating on a portfolio of CDFI loans, however, the CDFI sector should now be able move to the public equity markets. They can do this by creating a fund that is designed for them. The CDFI Equity Fund that is proposed as a C-Corp or Beneficial Corporation for Stage Two of the financings here is an example.

The public market issuing process is more involved and the costs are much higher in establishing a vehicle. However, there are two benefits which are essential to CDFIs: (i) a 250-billion-dollar market for preferred stocks and a trillion-dollar market for common stocks which virtually guarantee access to equity on a "flow" basis; and (ii) the possibility of getting preferred equity without the redemption requirements.

INVESTOR RISK:	ON FUND PREFERRED	ON SPV PREFERRED
Investor is:	**General public**	**The CDFI Equity Fund**
Yield	**5.00%**	**6.50%**
Cumulative/Non-cumulative	**Cumulative**	**Non-cumulative**
Redemption / Repurchase	**None**	**None**
Minimum Common Equity Cushion	**200%**	**50%**
Minimum Cash % to Total Assets	**5.00%**	**1.50%**
Minimum Cash % to Total Debt	**10.00%**	**2.00%**

The chart above shows the yield going down on the Stage One Source LP's preferred units from 6% to 5% for the CDFI Equity Fund's preferred stock. This is a result of the collapse of the "arbitrage" discussed earlier during Stage One: the market perception of risk associated with low-income lending is reduced (relative to conventional lenders) or eliminated by the loan and loan portfolio performance data—and the public investment grade rating that is generated from the loan performance data. In this scenario, however, the yield on the SPV preferred stock goes up. This is due to the conversion of the SPV preferred from a cumulative to non-cumulative status and the elimination of the redemption requirements for the SPVs. The liquidity constraints are eliminated for the SPVs.

This effectively gives the CDFIs what they are seeking for the most part: an unrestricted continuous flow of equity refinanced through the issuance of additional equity in the capital markets. It is the kind of equity that banks regularly access.

It is notable in this Stage Two scenario that the CDFI Equity Fund Platform preferred remains cumulative instead of the non-cumulative that is typically issued by banks. It is also notable that the capital constraint (less than 1:1 leverage) remains in place and that the liquidity constraints (minimum cash levels), though slightly lower, remain in effect. These constraints are retained in order to reduce the yield target on the Fund's preferred stock. A non-cumulative preferred stock would cost more given the uncertainty of regular dividend payment, but it is not necessary given the diversification, the scale, and the stable level of cash flows that are sufficiently robust to make the dividend payments. The CDFI SPVs face a different prospect: because of their size and the size of their loan portfolios, there could be swings in cash flow which a non-cumulative preferred could better accommodate.

The key takeaway from the charts of both Stages is that the Platform is essential in bridging the gap between CDFIs and the equity markets and that the key driver for the Platform consists of the concessionary terms on the Common interests (Stage One) and Common stock (Stage Two).

It is important to reiterate that these yields are placeholders only. They were developed for the Source proposal in 2020 under different market conditions. At the time, two different factors converged—the need for equity among CDFIs was becoming critical and the capital markets were robust—with many investors looking for arbitrage opportunities and willing to take on unfamiliar risk. It is also important to note that the changes in the pricing as a result in moving from cumulative to non-cumulative and from redemption to perpetual were estimates and were not vetted by underwriters at the time.

The final pricing will be aligned to market conditions at issuance. While the market conditions are not presently aligned in favor of this kind of breakthrough financing, they were in 2020-2021 and are likely to return over time once the Federal Reserve completes its financial condition tightening. It would be strategically sound to be ready to take advantage of favorable conditions quickly when available.

Staffing

In Stage One, the intermediary equity Platform is the Source LP, a limited partnership. It is a largely automated platform that operates as follows:

1. *Market analysis and Strategy*. At the beginning of each year and updated quarterly, the board approves target lending and credit benchmarks by asset class for loans that will be funded by the Source LP's investments in the CDFI SPVs' preferred units. As noted earlier, the lending benchmarks are recommended by its Market Advisory Committee whose sole task is the evaluation of credit needs in the market. The Market Advisory Committee is composed of members of the CDFI community and the representatives of one or more federal agencies that serve the CDFI sector. (The federal agencies may also be the investors in the Class C equity of the Source LP and the Class C common stock of the CDFI Equity Fund.)
2. *Risk Management and Administration*. The Source LP delegates authority to the participating CDFIs to determine which new or existing loans will be sold to their SPVs and funded in part by the Source LPs preferred equity investment. The CDFIs can choose to sell loans to their SPVs at the end of each quarter. Each CDFI has a discreet portal on the Source LP Platform and files monthly online reports on their SPV portfolios. The chief function of the Source LP staff is to monitor the transactions, the performance of the loans, the performance of the portfolios, and the financial status of the SPVs. In fulfilling their duties the Source LP staff: (i) ensure proper segmentation of the aggregate SPV and Source portfolios by asset class for the purpose of determining concentrations; (ii) run an automated monitoring system that captures risk indicators in the loans and in the SPVs and generates predictive trends in risk; (iii) performs desk and credit audits on the loans and SPV portfolios; (iv) manage a CDFI portfolio portal that provides all the data to the CDFIs; and (v) enforce a system of graduated remedies when and where needed (further details in *Section V. Managing Risk*).
3. *Finance and Investment*. This component of the Source LP involves managing the cash flows from the SPV preferred investments. Since these occur only quarterly, the tasks are comparatively predictable. Finance is also responsible for segmenting the portfolio for the purposes of facilitating financing and for ensuring prompt satisfaction of the duties associated with the banks, the Class A, B, and C investors, and the associated administrative (trustee and custodian) services. They are also tasked with ensuring CRA compliance for the SPVs.

The benefit of this automated and streamlined staffing structure is that there is material operating leverage: while the portfolio and associated revenues grow substantially, the cost of managing it remains mostly fixed. In order to achieve these economies of scale, a staff configuration such as the following is recommended:

1. A General Partner or the equivalent
2. Board of Directors or the equivalent, drawn from the Class B common investors
3. Market Advisory Committee or the equivalent, including one or more federal agencies who may also be Class C investors
4. CFO or financial professional of equivalent experience
5. Two portfolio credit managers
6. One administrative staff

The chart below shows the input sheet for the staff costs of the Source LP Pro Forma. The primary focus is on the actual production of analyses in the portfolio monitoring and prediction functions. For a participation of 10 CDFIs, with the portfolio sizes presented, the monitoring and analysis production outlined below is more than sufficient. A more detailed discussion of the Risk Management role and the composition of the evaluations is set forth in *Section V. Managing Risk*.

OPERATING PLATFORM			2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
FTE Hours to Evaluate Data for 1 SPV Portfolio	36	40	800	800	800	800	800	800	800	800	800	800
Number of Evaluations per Year	37		20	20	20	20	20	20	20	20	20	20
FTE Hours to Run 1 SPV Stress Test	38	60	600	600	600	600	600	600	600	600	600	600
Number of Stress Tests per Year	39		10	10	10	10	10	10	10	10	10	10
FTE Hours to Evaluate Consolidated SPV and CDFI	40	80	800	800	800	800	800	800	800	800	800	800
Number of Evaluations per Year	41		10	10	10	10	10	10	10	10	10	10
FTE Hours Credit Audit 50 loans	42	300	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Number of Credit Audits	43		4	4	4	4	4	4	4	4	4	4
Annual Hours per FTE / Total Hours Required	44	1,860	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400
FTE Required	45		1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Total Compensation per Financial Risk Analyst (w/ Inflation)	46	$150,000	$279,677	$285,271	$290,976	$296,796	$302,732	$308,786	$314,962	$321,261	$327,687	$334,240
Finance and Administration	47	$375,000	$382,500	$390,150	$397,953	$405,912	$414,030	$422,311	$430,757	$439,372	$448,160	$457,123
Professional Services	48	$125,000	$127,500	$130,050	$132,651	$135,304	$138,010	$140,770	$143,586	$146,457	$149,387	$152,374
Transactional Services	49	0.25%	$52,582	$108,139	$159,765	$208,292	$226,713	$291,784	$338,869	$385,750	$433,816	$439,004
Other Expenses	50											
Total Operating Expenses	49	$0	$842,259	$913,610	$981,345	$1,046,304	$1,081,486	$1,163,652	$1,228,174	$1,292,841	$1,359,049	$1,382,742
Operating Cost per SPV PRF Portfolio $ Outstanding	50	0.00%	4.00%	2.11%	1.54%	1.26%	1.19%	1.00%	0.91%	0.84%	0.78%	0.79%
Operating Cost per SPV Loan Funded # Outstanding	51	$0	$4,149	$2,039	$1,335	$978	$741	$609	$503	$422	$358	$299
Operating Expense to Total Assets	52		2.79%	1.54%	1.12%	0.91%	0.93%	0.82%	0.73%	0.69%	0.66%	0.66%

Because the investment decisions are made by the CDFIs, the only asset-related duties on the Platform are associated with managing risk. Managing risk is largely automated. With a pre-selected group of originators (CDFIs) and no additions, the risk management function demands less per-unit over time as the portfolio grows. The same operating leverage applies to the Finance and Administration functions. The only expense that expands in concert with asset growth is transactional services.

Stage One Source LP Pro Formas

Financial Statement Summary for the Source LP

The following chart shows the results of the Source LP purchases of the preferred units issued by the SPVs:

CDFI LOANS CAPITALIZED		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Number of Loans Originated	1	202	245	287	335	389	453	532	621	727	831
Cumulative Number of Loans Originated/Serviced	2	202	447	734	1,069	1,458	1,911	2,443	3,064	3,791	4,622
Loans Outstanding	3	104,676,475	215,805,218	319,072,293	416,144,605	497,849,169	583,165,435	677,355,418	771,137,765	867,291,258	964,528,313
Cumulative Loans Originated	4	114,968,790	248,437,580	401,506,370	572,422,160	757,337,950	958,606,740	1,179,522,530	1,417,985,320	1,676,095,110	1,952,851,900
FINANCIAL SUMMARY		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Total Revenues	5	1,594,118	2,748,663	4,062,868	5,305,235	5,686,013	7,241,235	8,438,765	9,572,403	10,720,245	10,816,399
Operating Expenses	6	842,016	913,374	981,117	1,046,084	1,081,294	1,163,450	1,227,983	1,292,660	1,358,879	1,382,598
Interest Expense	7	0	0	0	1,000,000	1,000,000	2,000,000	1,801,329	2,401,996	3,003,327	3,003,329
Net Profit before Tax and Distributions	8	752,102	1,835,289	3,081,751	3,259,151	3,604,719	4,077,785	5,409,453	5,877,748	6,358,040	6,430,472
SOURCE Preferred Distributions	9	$300,000	$540,000	$720,000	$840,000	$900,000	$900,000	$1,200,000	$1,440,000	$1,620,000	$1,740,000
SOURCE Common Distributions	10	$414,497	$1,203,525	$2,207,663	$2,256,193	$2,524,483	$2,770,006	$3,668,508	$3,849,973	$4,102,236	$4,047,425
Cash and Marketable Securities	11	$34,085,205	$15,939,588	$23,417,696	$31,176,019	$24,991,089	$24,347,348	$31,051,339	$31,898,718	$31,336,741	$31,928,279
SVP Preferred Interests	12	$20,935,295	$43,161,044	$63,814,459	$83,228,921	$90,608,549	$116,633,087	$135,471,084	$154,227,553	$173,458,252	$175,544,153
Total Assets	13	$55,221,782	$59,461,820	$87,766,070	$115,101,921	$116,367,379	$141,937,825	$167,637,241	$187,391,966	$206,213,933	$208,939,883
Rate of Asset Growth	14		7.13%	32.25%	23.75%	1.09%	18.02%	15.33%	10.54%	9.13%	1.30%
Short Term Liabilities	15										
Long Term Debt	16	$0	$0	$0	$25,000,000	$25,000,000	$50,000,000	$45,033,222	$60,049,889	$75,083,167	$75,083,222
Total Liabilities	17	184,177	332,451	482,613	25,655,507	25,740,728	50,903,396	46,061,867	61,228,817	76,414,980	76,497,883
SOURCE Preferred Interests	18	5,000,000	9,000,000	12,000,000	14,000,000	15,000,000	15,000,000	20,000,000	24,000,000	27,000,000	29,000,000
SOURCE Common Interests	19	50,000,000	50,000,000	75,000,000	75,000,000	75,000,000	75,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Retained Earnings	20	37,605	129,370	283,457	446,415	626,651	1,034,429	1,575,374	2,163,149	2,798,953	3,442,000
Total Equity	21	55,037,605	59,129,370	87,283,457	89,446,415	90,626,651	91,034,429	121,575,374	126,163,149	129,798,953	132,442,000

The Source LP distributes 95% of its net profit on its preferred units at a dividend rate of 6%. The remainder is paid to the common units after the dividends to the holders of the Source Preferred units are paid.

The average annual rate of growth for the Source portfolio of SPV Preferred units is 26.7% over the period. This is lower than the actual loan growth forecasted by the CDFI SPVs because of the 10% redemptions in the 5th and 10th years for the Pro Forma Source LP Preferred private issue. The growth rate could be higher if the CDFIs choose to recapitalize by selling more existing loans in their portfolios to the SPV than is assumed in their Surveys.

Key Performance Indicators

Because of investor unfamiliarity with the CDFI sector, and the untested nature of the Source LP portfolio, a conservative stance is maintained relative to liquidity and capitalization at the Source: (i) cash and marketable securities remain above 35% relative to debt and above 15% of total assets; (ii) total liabilities do not exceed 60% of equity, and risk asset (SPV preferred unit) coverage of debt is over 200%; and (iii) Common equity does not drop below 40% of total assets.

The chart below shows the trends of the major indicators in the financial projections:

PERFORMANCE INDICATORS		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash & Marketable Securities to Total Debt	22	0.00%	0.00%	0.00%	124.70%	99.96%	48.69%	68.95%	53.12%	41.74%	42.52%
Cash & Marketable Securities to Total Assets	23	61.72%	26.81%	26.68%	27.09%	21.48%	17.15%	18.52%	17.02%	15.20%	15.28%
Current Ratio	24	340.96	101.46	104.79	98.29	74.64	4.64	5.83	3.12	3.05	2.25
Total Liabilities to Total Equity	25	0.3%	0.6%	0.6%	28.7%	28.4%	55.9%	37.9%	48.5%	58.9%	57.8%
Years to Repay Debt (FCF)	26	0	0	0	8	7	12	8	10	12	12
SOURCE Preferred % to Total Assets	27	9.1%	15.1%	13.7%	12.2%	12.9%	10.6%	11.9%	12.8%	13.1%	13.9%
SOURCE Common Equity % Total Assets	28	90.6%	84.3%	85.8%	65.5%	65.0%	53.6%	60.6%	54.5%	49.9%	49.5%
% Debt exposure is covered by value of SPV Preferreds	29	0.0%	0.0%	0.0%	332.9%	362.4%	233.3%	300.8%	256.8%	231.0%	233.8%
Distibution Revenue from SPV Preferred Yield %	30	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Net Profit Before Tax to Assets	31	1.36%	3.09%	3.51%	2.83%	3.10%	2.87%	3.23%	3.14%	3.08%	3.08%
Distribution for SOURCE Preferred Yield %	32	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Distribution for Common Yield %	33	0.83%	2.41%	2.94%	3.01%	3.37%	3.69%	3.67%	3.85%	4.10%	4.05%
SOURCE Preferred Interest Distribution Coverage (NPBT)	34	251%	340%	428%	388%	401%	453%	451%	408%	392%	370%
Common Interest Distribution Coverage (NPBT)	35	109%	108%	107%	107%	107%	115%	115%	115%	115%	116%

The complete Pro Forma Financials are in Appendix J. Pro Forma Financials for the Source and the CDFI Equity Fund.

The only financial challenge in this scenario is in the years it takes for free cash flow to repay debt, which hovers in the 12-year range. This is a function of the 95% payout of net profit and the use of an 8-year Revolving Credit/Term Loan with a 3-year revolving period. The assumption is that the revolving portion would be rolled over, as is commonly the case, prior to it terming out over 5 years. (Note: the rate on the RC/TL was projected at 4% or LIBOR + 350, a market rate for this sort of credit at the time of the Surveys in 2020.)

The amount of borrowing activity is also accelerated by the need to redeem the Source LP preferred units at a rate of 5% per quarter. This constraint is brought about by, again, investor unfamiliarity with the CDFI sector, the inability to mark the SPV and the Source LP preferred units to market, and the need for liquidity in what is likely a limited market for investors. There is a cost to this constraint: the forecast assumes a 1% yield on cash and marketable securities which produces a material negative interest arbitrage.

The dividend coverages for the Source LP preferreds as well as the Source LP common are strong. Both easily cover the tax liabilities that are generated. Equally important is that there is room in the distributions after the preferred for the common to achieve a market return over time. This is engineered through the combination of asset growth and economies of scale in the operation and administration of the platform.

Operating Leverage

As previously noted, the strategic innovation in the operations of the Source LP helps drive the operating expense ratios down. Unlike most intermediaries and funds, the Source LP does not select the assets that it helps capitalize. The cost of the analytical function of asset acquisition is effectively zero.

Summary of the Terms and Conditions of the Stage One Source LP Preferred and Common Interests

Stage One does not fit easily into the standard fund structures. This enterprise is structured on the model of project finance: there is an initial amount invested by the parties involved, and a commitment to invest additional monies as certain targets are achieved.

Issuer Stage One – The Source LP

1. A de novo fund, the CDFI Equity Source LP ("Source LP") is a Limited Partnership with preferred and common interests issued through one or more private placements.
2. It is a public/private partnership that uses federal agency expertise and financial resources to help prime the pump for market entry.
3. The federal agency is a non-voting investor (Common interest C) which chairs the Market Advisory Committee. The Committee sets targets and credit benchmarks for lending.
4. The fund capitalizes CDFI lending activity across 6 primary asset classes nationally—owner-occupied single-family mortgages, small business loans, and mortgages, mini-perms and development loans for multifamily, community facilities and commercial real estate, and other—principally loans to other CDFIs. There is a target of 10 CDFIs participating (minimum of 7). All CDFIs are rated highly by the CDFI industry's rating platform, AERIS.

Use of Funds for Stage One – The Source LP

1. Purchase preferred equity interests issued by the Special Purpose Vehicles ("SPV") of the participating CDFIs.
2. The SPVs are 100% owned and operated by their parent CDFIs. They are created as the for-profit entity through which investor equity is upstreamed to the CDFI. The new equity improves the capitalization of the consolidated CDFI (See charts in Section II. The CDFI SPVs).

Capitalization of Stage One – The Source LP

1. Debt between 20-35% of total assets, preferred interests between 10-20%, and common interests of between 50 and 65%, all amounting to 100% of SPV capitalization. Cash between 15 and 20% of Total SPV Loans. Maximum Debt to Equity not to exceed 60%.
2. The bank debt and the preferred interests are at market rates with market terms.
3. The common interests have limited liquidity and are at a below market rate yield initially. The concessions provide the affordable pricing and payment flexibility that CDFIs need in the early years. The common interests achieve market risk/return benchmarks in years 5-10 as a result of portfolio growth and operating leverage.

Outcomes of Stage One – The Source LP

1. Based on the surveys provided by the participating CDFIs, the Source LP is expected to achieve a portfolio size of $200 million within 10 years, helping capitalize almost $2 billion in CDFI loans.
2. Audited performance data on the CDFI loan and preferred interest assets will enable the Source portfolio to achieve an investment grade rating for preferred stock by a nationally recognized rating agency.

3. Common equity interests are expected to achieve a dividend rate in the 3.5-4% range—assuming the growth targets are achieved over the period. Annual asset growth at stabilization is projected in the 15-25% range.
4. Between years 5 and 10, Stage Two is initiated. The Stage Two CDFI Equity Fund will have the capacity to purchase some or all of the portfolio assets of the Stage One Source LP.

(Please note: the yields presented below are placeholders only. They are based on market research and analysis conducted in 2020. Current market conditions are different and will be updated in the securities offering document.)

The Stage One securities below will be privately placed with accredited and institutional investors who know the CDFI industry and are committed to its growth.

CLASS A Preferred Units of the CDFI Equity Source Limited Partnership

Investor Class	Accredited investors
Purpose	Finance the purchase of Preferred Units from Special Purpose Vehicles 100% owned by participating CDFIs
Issuer	Source LP ("Source LP")
Partnership Interests	1,000,000 units at $25.00 per unit
Amount	$25,000,000
Minimum Commitment	$1,000,000
Commitment Term	Up to 5 years
Drawdown	Committed funds will be drawn down on a quarterly basis to help capitalize the purchase of CDFI loans by SPVs.
Redemptions	Mandatory redemptions of the units by the Source LP at 5% per quarter on a pro rata basis beginning at the end of the first quarter of the second year.
Dividend/Distributions	6% Preferred Dividend Distribution. Cumulative, quarterly
Voting Rights	In the event of unremedied non-compliance the preferred stock converts to subordinated debt.

(Please note: the yields presented below are placeholders only. They are based on market research and analysis conducted in 2020. Current market conditions are different and will be updated in the securities offering document.)

The Stage One securities below will be privately placed with accredited and institutional investors who know the CDFI industry and are committed to its growth.

Class B Common Units

Investor Class	Institutional Investors
Purpose	Finance the purchase of Preference Units from 100% owned Special Purpose Vehicles 100% owned by participating CDFIs
Issuer	Source LP ("Source LP")
Partnership Interests	4,000,000 units at $25.00 per unit
Amount	$100,000,000 with a minimum of $25,000,000
Minimum Commitment	$500,000
Commitment Term	Up to 5 years
Drawdown	Committed funds will be drawn down on a quarterly basis to help capitalize the purchase of CDFI loans by SPVs. If total SPV Preferred portfolio assets do not exceed $30 million at the end of 3 years, then the commitments are terminated, and the partnership winds down.
Redemptions	None
Dividend/Distributions	Minimum annual profit distribution of 1% in years 2-5. Minimum of 3% thereafter.
Voting Rights	On governance and asset sales
Termination	When the partnership's portfolio performance enables an "A" rating on the Source LP preferred stock, Class B and Class C unit holders will determine whether to continue the partnership and its operations or sell or redeem the assets and liabilities to the Stage Two CDFI Equity Fund.

(Please note: the yields presented below are placeholders only. They are based on market research and analysis conducted in 2020. Current market conditions are different and will be updated in the securities offering document.)

The Stage One securities below will be privately placed with one or more federal agencies involved in expanding credit to low income urban and rural communities.

Class C Common Units

Investor Class	Federal Agency or Agencies involved in Community Development
Purpose	Finance the purchase of Preference Units from Special Purpose Vehicles 100% owned by participating CDFIs.
Issuer	Source LP ("Source LP")
Partnership Interests	500,000 units at $20.00 per share
Amount	$10,000,000
Minimum Commitment	$2,000,000
Commitment Term	Up to 5 years
Drawdown	Committed funds will be drawn down in full at inception.
Redemptions	None
Dividend/Distribution	Minimum annual profit distribution of 1% in years 2-5. Minimum of 3% thereafter.
Voting Rights	Class C is pari passu with Class B except in voting rights. Voting rights are limited to issues associated with (i) annual credit benchmarks for asset classes, (ii) members of the Market Oversight Committee, and (iii) material alteration of the business.

Stage Two CDFI Equity Fund Pro Formas

Implementing Stage Two is the ultimate objective of this Project. As noted in the Summary, the original vehicle for bringing equity to the CDFI sector was designed as a corporate platform (C-Corporation or Beneficial Corporation) that issued preferred and common stock to the general public via the stock market. The primary reason: the preferred stock market measures over $250 billion and the common stock market measures over a trillion dollars; such magnitudes could assure the CDFI sector of an essentially unlimited flow of unrestricted equity on an as-needed basis.

In order to overcome the obstacles that blocked this approach and initiate Stage Two, the following must be accomplished by the Source LP during Stage One:

1. Demonstration of the Source LP's predictive modeling and allocation of portfolio risk, efficient use of staff and operating resources, and the effectiveness of the graduated remedies in protecting portfolio exposure.
2. Demonstration of the public/private teamwork in the disciplined expansion of credit to new areas of need.
3. Solid performance and investor market acceptance of the Source LP Class A Preferred Units.
4. Solid performance and investor market acceptance of the Source LP Class B Common Units, with a particular focus on liquidity and the upside for dividend yield.
5. Demonstration that CDFI credit warrants lower pricing for risk and greater flexibility in redemptions and repurchases.
6. Demonstration of the capacity to obtain an investment grade rating on a Preferred Stock that helps fund the Platform.

Pro Forma Assumptions

Key assumptions for the Stage Two scenario were:

1. The C-Corp CDFI Equity Fund Stage would be set up in the 10th year of Stage One—2030—and the first year of full operation would be 2031.
2. The Stage One Source would be closed to further activity with the ten participating CDFIs, and those CDFIS would direct their SPVs to issue preferred interests or preferred stock to the Stage Two CDFI Equity Fund. The Stage One Source could also choose to sell its existing portfolio to the CDFI Equity Fund, or keep it and open up its portfolio in the 10th year to a new set of participating CDFIs whose portfolios had not been seasoned.
3. The ten original participating CDFIs would sell loans to their SPVs at the same unit level that they achieve in the 10th year of their Stage One Pro Formas, and they would increase the volume annually by the same *number* of loans as in Stage One (a more conservative growth trajectory than percentages would provide, given the larger initial base of outstanding loans).
4. All of the other financial and operating assumptions would remain static.

CDFI SPV LOANS CAPITALIZED		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Number of Loans Originated	1		834	977	1187	1437	1733	2087	2514	3021	3629	4335
Cumulative Number of Loans	2	0.00	834	1,811	2,998	4,435	6,168	8,255	10,769	13,790	17,419	21,754
Loans Outstanding	3		260,128,250	517,591,334	726,133,065	920,054,108	1,084,517,149	1,260,161,158	1,451,916,445	1,651,490,068	1,867,634,655	2,101,940,392
Cumulative Loans Originated	4		281,256,790	585,213,580	925,570,370	1,303,974,160	1,720,577,950	2,182,534,740	2,698,938,530	3,274,689,320	3,920,287,110	4,644,731,900
FINANCIAL SUMMARY: FUND		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Total Revenues	5	0	$3,862,667	$6,916,937	$9,628,730	$12,144,703	$14,289,473	$16,584,845	$19,137,664	$21,719,371	$24,552,251	$27,603,225
Operating Expenses	6	0	$1,276,742	$1,428,407	$1,556,070	$1,676,890	$1,783,459	$1,896,105	$2,017,303	$2,142,917	$2,277,333	$2,421,356
Interest Expense	7	0	$0	$792,000	$1,386,000	$2,754,000	$3,961,463	$4,373,393	$4,190,347	$5,615,263	$6,394,078	$7,225,337
Net Profit Before Tax and Dividends	8	0	$2,585,926	$4,696,531	$6,686,660	$7,713,813	$8,544,551	$10,315,347	$12,930,014	$13,961,191	$15,880,840	$17,956,532
FUND Preferred Dividends	9		$0	$0	$1,250,000	$1,250,000	$1,250,000	$2,500,000	$2,500,000	$2,500,000	$3,750,000	$3,750,000
FUND Common Dividends	10		$1,645,942	$2,989,342	$3,006,059	$3,659,842	$4,188,606	$4,065,718	$5,729,954	$6,386,298	$6,358,155	$7,679,333
Cash and Marketable Securities	11		$48,111,810	$18,845,437	$18,915,862	$18,431,802	$19,108,925	$20,303,619	$26,342,314	$25,035,256	$27,353,606	$27,862,290
SPV Preferred Interests	12		$52,025,650	$103,518,267	$145,226,613	$184,010,822	$216,903,430	$252,032,232	$290,383,289	$330,298,014	$373,526,931	$420,388,078
Total Assets	13		$100,627,778	$123,262,434	$165,395,801	$204,025,115	$237,875,109	$274,498,400	$319,220,136	$358,165,802	$404,082,816	$451,851,467
Rate of Asset Growth	14			18.36%	25.47%	18.93%	14.23%	13.34%	14.01%	10.87%	11.36%	10.57%
Current Liabilities	15		$333,047	$604,398	$846,929	$2,813,916	$4,315,113	$7,553,852	$10,591,844	$11,949,638	$10,453,091	$13,156,177
Long Term Debt	16		0	22,000,000	38,500,000	74,748,778	106,679,762	114,578,235	105,675,419	142,635,932	164,344,568	183,621,146
Other Long Term Liabilities			208,103	414,073	580,906	736,043	867,614	1,008,129	1,161,533	1,321,192	1,494,108	1,681,552
Total Liabilities	17		541,150	23,018,471	39,927,836	78,298,737	111,862,489	123,140,215	117,428,796	155,906,762	176,291,767	198,458,875
FUND Preferred Stock	18		0	0	25,000,000	25,000,000	25,000,000	50,000,000	50,000,000	50,000,000	75,000,000	75,000,000
FUND Common Stock	19		100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	150,000,000	150,000,000	150,000,000	175,000,000
FUND Retained Earnings	20		86,629	243,962	467,965	726,378	1,012,621	1,358,185	1,791,340	2,259,040	2,791,048	3,392,592
Total Equity	21		100,086,629	100,243,962	125,467,965	125,726,378	126,012,621	151,358,185	201,791,340	202,259,040	227,791,048	253,392,592

The complete Pro Forma Financials are in Appendix J Pro Forma Financials for the Source and the CDFI Equity Fund.

The Stage Two Fund is not a Limited Partnership. In order to attract the widest range of preferred stock investors, it is a C-Corp or a Beneficial Corp. This presents a tax liability problem for the CDFIs relative to having to report unrelated business taxable income. If a loan is made by the non-profit CDFI, the income is not taxable. If the CDFI carries the same loan on the books of its 100% owned subsidiary LLC, it is not taxable. However, the income may become taxable if (i) the LLC becomes a C-Corp., (ii) the LLC is owned by a C-Corp.; or under certain circumstances, (iii) the LLC sells equity interests to a C-Corp. In Stage Two, with the Fund as a C-Corp, the income the SPVs generate on their loan portfolios may be deemed taxable. This does not have to be a major issue since the CDFIs are unlikely to run the SPVs at a high level of profitability, that is, taxable income. Nevertheless, because of the ambiguities, the Pro Forma for Stage Two assumes the worst case: taxes are paid at the SPV LLC level and added to the cost of preferred stock option. The Fund must also pay taxes on its earnings, which also boosts overall costs of the program. Ultimately, tax counsel must be retained to opine on these tax issues once the stakeholders outline their priorities for the Platform and SPV structures.

PERFORMANCE INDICATORS		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Cash & Marketable Securities to Total Debt	22		0.00%	0.00%	85.66%	49.13%	24.09%	17.41%	16.82%	22.99%	16.40%	15.84%
Cash & Marketable Securities to Total Assets	23		47.81%	15.29%	11.44%	9.03%	8.03%	7.40%	8.25%	6.99%	6.77%	6.17%
Current Ratio	24		145.62	32.32	23.47	6.98	4.76	2.91	2.67	2.28	2.85	2.33
Total Liabilities to Total Equity	25		0.54%	22.96%	31.82%	62.28%	88.77%	81.36%	58.19%	77.08%	77.39%	78.32%
Years to Repay Debt (FCF)	26		0	5	6	10	13	12	9	11	11	11
FUND Preferred Stock % to Total Assets	27		0.00%	0.00%	15.12%	12.25%	10.51%	18.22%	15.66%	13.96%	18.56%	16.60%
FUND Common Stock % to Total Assets	28		99.46%	81.33%	60.74%	49.37%	42.46%	36.92%	47.55%	42.51%	37.81%	39.48%
% Debt exposure is covered by value of SPV Prfrd	29		0.00%	470.54%	377.21%	240.54%	197.64%	208.84%	253.44%	216.34%	216.37%	216.31%
Dividend Revenue from SPV Preferred Yield %	30		6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Net Profit Before Tax to Assets %	31		2.57%	3.81%	4.04%	3.78%	3.59%	3.76%	4.05%	3.90%	3.93%	3.97%
Dividend Yield on FUND Preferred Stock %	32		0.00%	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Dividend Yield on FUND Common Stock %	33		1.65%	2.99%	3.01%	3.66%	4.19%	4.07%	3.82%	4.26%	4.24%	4.39%
FUND Preferred Stock Dividend Coverage (NPBT)	34	0.00%	0.00%	0.00%	358.40%	413.46%	457.99%	276.45%	346.52%	374.16%	283.74%	320.82%
FUND Common Stock Dividend Coverage (NPBT-PS)	35	0.00%	105.26%	105.26%	107.45%	107.06%	106.83%	108.50%	107.56%	107.32%	108.37%	107.83%

Key similarities between the Stage One and Stage Two platforms and Pro Formas include:

1. The CDFI Equity Fund is a C-Corp and the SPVs are all LLCs automatically issuing preferred stock which the Fund purchases at a rate of 20 cents on the dollar.
2. The CDFI parent must hold a minimum of 10% of the SPV's common equity.
3. The benchmarking process is the same.
4. Automated delegation of loan approval and quarterly closings remain the same.
5. The operating agreement that the CDFI maintains with the SPV is the same.
6. The Fund staffing is the same as that of the Source and does not need to expand with the asset growth due to the automated monitoring and remediation system and familiarity with the client base. This is a major factor in the containment of operating expenses.
7. There is no material change to the percentages in the portfolio segmentations or concentrations.
8. Dividend coverages remain robust and common stock dividend reaches 4.39%. Average asset growth exceeds 20%.

Key differences are:

1. The SPV preferred stock becomes non-cumulative.
2. The SPV preferred stock becomes perpetual—effectively refinanced through issuance of additional preferred stock.
3. The SPV pays a slightly higher yield on the preferred (0.5% higher, up from 6.0%) due primarily to the cost of the non-cumulative perpetual structure.
4. The SPV can maintain lower levels of cash and marketable securities.
5. The Fund obtains an A rating on the Fund Preferred Stock which enables a drop from 6% to 5% despite the change from scheduled quarterly redemptions to perpetual.
6. The Fund issues long term debt in the capital markets to balance the RC/TL at a rate of 4% and a ratio of 60/40.
7. The Fund issues $75mm in Preferred Stock and $175mm in Common Stock and capitalizes 21,754 loans over a 10-year period, amounting to $4.6 billion.

Summary of the Terms and Conditions of the Stage Two CDFI Equity Preferred and Common Stock

Unlike the Source LP financing in Stage One, this is not a project finance type of structure.

Issuer Stage Two – The CDFI Equity Fund

1. The CDFI Equity Fund ("Fund") is a C-Corporation with rated preferred stock and common stock issued publicly to conventional investors.
2. The Fund is unlimited as to size and number of participating investors.
3. In addition to originating CDFI SPV preferred interests or preferred stocks for their own portfolio, the Fund may purchase the portfolio assets of the Stage One Issuer, the Source LP.

Use of Funds for Stage Two – The CDFI Equity Fund

1. Purchase preferred interests issued by the SPVs of the 10 CDFIs participating in Stage One.
2. Purchase preferred interests issued by the SPVs of an unlimited number of CDFIs that are AERIS qualified.
3. Purchase either preferred interests from SPV LLCs or preferred stocks from SPV C-Corps depending on individual CDFI organizational structure and tax circumstances.

Capitalization of Stage Two – The CDFI Equity Fund

1. Debt to the CDFI parent or banks between 40-50% of total assets, preferred stock between 15-25%, and common stock of between 35 and 50%. Cash between 5 and 10% of Total Assets. Maximum Debt to Equity not to exceed 90%.
2. The Bank debt and the Fund preferred stock are at market rate with market terms. Unlike the Source preferred interests, however, the Stage Two CDFI Equity Fund's will not have quarterly redemptions.
3. The Fund is free to redeem shares in the market and issue new preferred shares as it deems necessary and compatible with investor preferences.
4. The common stock will have market terms. The target dividend yield is in the 4-5% range, reflecting the expected available cash flow to common shareholders, credit quality and the steady and stable growth inherent in the CDFI lending portfolios.

Outcomes of Stage Two – The CDFI Equity Fund

1. Initiated in 2031, the Fund is projected to achieve a portfolio size of $420mm within 10 years, helping capitalize $4.6 billion in CDFI home mortgages, small business loans, multifamily loans, community facility loans and commercial real estate loans in low income and distressed communities. This can be accomplished with just the original 10 CDFI participants.
2. The Fund can add as many CDFIs that are highly rated by AERIS as its capitalization can accommodate.
3. Market familiarity combined with the stable growth of the CDFI assets is expected to attract more investors, resulting in asset appreciation based on supply-demand effect on the Fund's valuation, lower yields on the preferred and common stocks, and a lower cost of equity and cost of funds for CDFIs.
4. The CDFI sector will have access to a trillion-dollar equity market on demand at comparable terms, and investors will have a steady and stable, low risk asset at an attractive yield.

(Please note: the yields presented below are placeholders only. They are based on market research and analysis conducted in 2020. Current market conditions are different and will be updated in the securities offering document.)

The Stage Two securities below will be sold to the public.

Preferred Stock

Investor Class	General Public
Purpose	Finance the purchase of Preferred Units or Preferred Stock from 100% owned Special Purpose Vehicles 100% owned by participating CDFIs
Issuer	CDFI Equity Fund ("Fund")
Preferred Stock	2,000,000 shares at $25.00 per share
Amount	$50,000,000
Minimum Commitment	None
Drawdown	As needed
Redemptions	No mandatory redemptions
Dividends	5% Cumulative, annual, non-compounded preferred dividend
Voting Rights	In the event of unremedied non-compliance, the preferred stock converts to subordinated debt.

(Please note: the yields presented below are placeholders only. They are based on market research and analysis conducted in 2020. Current market conditions are different and will be updated in the securities offering document.)

The Stage Two securities below will be sold to the public.

Class B Common Stock

Investor Class	General Public
Purpose	Finance the purchase of Preferred Units or Preferred Stock from Special Purpose Vehicles 100% owned by participating CDFIs
Issuer	CDFI Equity Fund ("Fund")
Common Stock	5,000,000 shares at $40.00 per shares
Amount	$200,000,000
Minimum Commitment	None
Drawdown	As needed
Redemptions	None
Dividend	Target minimum dividend yield of 3%
Voting Rights	Full voting rights

(Please note: the yields presented below are placeholders only. They are based on market research and analysis conducted in 2020. Current market conditions are different and will be updated in the securities offering document.)

The Stage Two securities below will be sold to one or more federal agencies involved in expanding credit to low income urban and rural communities.

Class C Common Stock

Investor Class	Federal Agency or Agencies involved in Community Development
Purpose	Finance the purchase of Preferred Units or Preferred Stock from Special Purpose Vehicles 100% owned by participating CDFIs
Issuer	CDFI Equity Fund ("Fund")
Partnership Interests	500,000 units at $40.00 per share
Amount	$20,000,000
Minimum Commitment	$2,000,000
Commitment Term	Up to 2 years
Drawdown	Committed funds will be drawn down in full at the inception of the fund.
Redemptions	None
Dividends	Target minimum dividend yield of 3%
Voting Rights	Class C is pari passu with Class B except in voting rights. Voting rights are limited to issues associated with (i) annual credit benchmarks for asset classes, (ii) members of the Market Advisory Committee, and (iii) material alteration of the business.

Section IV. CDFI Risk

Summary Issues on Credit and Investment

As previously noted, the ability to get CDFI assets into the public equity market hinges on obtaining an investment grade rating for the preferred stock of the Stage Two CDFI Equity Fund. Access to conventional preferred stock, such as that enjoyed by the banking industry, is the essential piece around which the CDFI Equity Project revolves. Defining the *equity* risk and then building a case for CDFI loan, loan portfolio and organizational risk is therefore necessary.

The following sections present the chief components of the case for the quality of CDFI equity. The first focus is on how investors view CDFI debt obligations. Following a discussion of how the mutual fund industry views the risks associated with double bottom line lending, there is a discussion of the performance of the CDFI industry in the Bond Guarantee and the Small Business Loan Fund programs. The mutual fund industry perception indicates openness to CDFI credit risk, and the Bond Guarantee and Small Business Loan Fund programs both show the credit quality in the sector. While CDFI performance in the debt arena is well regarded—and well-rated—in the marketplace, there is no rating of CDFI equities. As previously noted, the major impediment to achieving a rating is the absence of hard data on the value of CDFI loans, loan portfolios and organizations in liquidation—as discussed below in the Credit Rating Agency section. The CDFI Equity Project attempted to overcome this difficulty through over-capitalization and excessive liquidity in its platform structure. In the end, however, data on actual liquidations is needed in order to justify asset values above zero.

In the effort to initiate a CDFI sector-wide data base on the valuation of CDFIs in liquidation, an extensive search was conducted with Dun & Bradstreet. The results as well as the challenges of this effort are discussed in the section on Bankruptcy. Work was also conducted using Paydex as an indicator of organizational financial and/or management strain. The data were not comprehensive or conclusive. However, it was evident that the industry would be well served by initiating a reporting system that captured such data in a consistent manner going forward. This is the subject of the section on Reporting in the next Chapter on Managing Risk. It presents the various essential datapoints around which solid valuations can be built.

Notwithstanding the data gap, two CDFIs have in fact issued both preferred and common stock. Clearinghouse CDFI and Community Development Trust have both been issuing equity privately to financial institutions and some institutional investors for up to 20 years—in a combined amount of about $400 million. So the absence of data on the liquidation value of loan and organizational assets has *not* prevented them from finding ways to get the equity financing that so many in the CDFI industry desperately need. This is discussed in the section below on CDFI Equity.

The final section is perhaps the most important part of the discussion of CDFI equity risk. This is a brief but documented review of the actual portfolio delinquency and loss performance of the CDFIs who participated in the CDFI Equity Project—on an aggregated historical basis. While the data on loan, loan portfolio and organizational losses in the CDFI sector generally are broad and inconsistent, the data for these CDFI participants are audited and consistent. All of the participants are rated highly by AERIS and three are rated A or better by S&P. It is because of this historical performance and the fact that sophisticated investors are already committing funds to CDFI equity that there is a clear path towards obtaining CDFI equity in the public markets.

CDFI Risk: The Market Perspective

The Double Bottom Line

Mutual fund valuation of equity investment with community development assets is driven in part by requirements of investor clients in the funds—the return objectives which are "double bottom line." These "double bottom line" objectives include financial returns (appreciation plus dividends) and loss risk tolerance, diversification and investment correlation addressed in the conventional equity valuation of mutual funds document and the ESG (environmental, social and governance) and social screens. Considering the dual objectives, the investor universe is willing to accept lower absolute returns if the loss exposure is managed and the community development/ESG investor objectives are met.

In addition to funds that invest 100 percent of assets into underserved communities, there are mutual funds that devote a certain percentage, for example, up to ten percent of their assets to community development investing. As a specific model, Praxis Funds commits 1% to community development ("deep community-impact investing'), through a partnership in which Calvert Impact Capital is the community development investment advisor. Praxis investments include IFF and Capital for Change. The funds with a limited percentage investment in community development finance assets are viewed with respect to the total blended Fund return with the expectation that community development assets will have a lower return than the blended return but that the inclusion of community development assets will increase the investor flow into the Funds who are motivated impact investors.

Individual Community Development Investment Valuation Analysis

Once financial criteria are satisfied, community development screens are applied to investments typically from affordable housing, job creation/small business, education, healthcare, financial counseling, child care, and other community service sectors. The screens are designed to create resources and opportunities for economically disadvantaged people and communities underserved by traditional financial institutions including access to affordable financial services and financial education, loans for first-time homebuyers and affordable housing development, micro and small business development, community services, and venture capital.

The presumption of a community development invested mutual fund is that their investors are motivated by supporting mission-driven and non-profit community development organizations or projects these organizations sponsor. The community development investments can also be in a portfolio of intermediaries (social enterprises, nonprofits) and funding of financing mission-driven organizations. The financial condition of the organizations as well as specific projects and loans are considered depending on whether the mutual fund investment is at the organization level or specific project level. Such investments blend financial and social returns, expected time horizon, and assumed reinvestment of retired funds. The expectation is proceeds of investments will provide capital for such activities as community facilities that offer affordable housing, education, and other community services that benefit low-income communities.

Socially conscious investors seek to own financially strong companies that make certain positive contributions to society. This is often termed "positive" community development social screening. The community development screen is preceded by review of financial condition: adequate capital to absorb losses, loan portfolio credit quality and adequately received, liquidity and cash reserves, positive cash flow, and net income growth and stability.

The equity return and valuation are dependent upon the economic success of the underlying projects, management/strategy and lending activities. There is a presumption that the project sponsors are lenders with a deep knowledge of markets and communities. Project sponsors are expected to offer more flexible terms for borrowers and reliance on multiple funding funds—subsidy and credit enhancement from private philanthropy and the public sector to mitigate risk to take on additional project-based risk. There is a reliance on principal and interest received in investment evaluation. Considering inherent community development investment risks, mutual funds look for available liquidity at the sponsoring community development financing organization. Mutual funds mitigate risk though portfolio investment diversification, credit analysis of borrower capacity and project repayment funds, and a mix of maturities in the portfolio. Credit enhancement supporting loans lessen the illiquidity risk and repayment risk. Lowering these risks enhances the financial risk adjusted return.

The expectation is that lending criteria and policies will result in more flexible terms than the criteria used by traditional or conventional commercial lenders. Furthermore, mission-based lenders are expected to underwrite to multiple and complex cash flows, including federal, state, and local programs, foundation and private guarantee and credit enhancements incorporated in the valuation, again supported by deep knowledge and experience in community development sectors, e.g., education, commercial real estate development and affordable housing. Depending on macro and local specific factors, cash flows may be delayed or even investment restructuring and loan losses and thus returns. Part of the valuation relies on understanding of management and investment/loan policies and expectation of management personnel retention and succession plan.

Community development valuations take into account the wide array of cash flow funds used to support community development project financing. Cash flow evaluated funds include public agency contracts and grants, private philanthropy, private payments for rent and services, and revenue streams from federal, state, and local funds and subsidies to make payments. Mutual fund analysis incorporates public policy goal shifts, budgetary fluctuations, and the risk that public funding sources may be reduced over the life of the investment, that may lead to additional risk exposure. In addition, the loans from equity proceeds may be illiquid and may not be able to access the funds necessary to repay.

Mutual Fund Portfolio Analysis

While conventional investing only focuses on the traditional risk and returns considerations in making investment decisions, community development investment portfolios consider ethical factors and impact measurement criteria. The evolving ESG and sustainability/social scores and disclosure are taken into account in the equity investment evaluation. Once impact investment scoring systems mature, it will be a larger factor in valuations.

There is increasing use of conventional equity portfolio analysis to measure whether social/community development investing returns differ from conventional investment analysis. There is little evidence that social/community development investing detracts from returns, and some evidence of a positive return, although research can be pointed to showing equivalent or worse or better returns for social motivated investing. For example, using the Carhart four-factor model (market, size, value, and momentum), it has been found that stocks with high social scores are bought while those with low scores are sold off producing a positive abnormal performance, suggesting that investors can achieve community development/social returns goals without expectation of lower financial performance. The consensus appears to be that multifactor models do not show statistically significant difference in performance between the social/community development driven funds and conventional funds.

Considering that difference in performance of funds may be due to portfolio selection/construction process and/or the ability of fund managers and not necessarily on the nature of investments themselves, some studies have compared the performance of indices instead. There have been pioneering studies comparing social impact funds' performance with the S&P 500 using the Sharpe ratio and the capital asset pricing model (risk free rate plus risk premium), addressed in the conventional equity valuation by mutual fund document. No significant difference was found in the performance of the two indices. A growing number of benchmarks, however, illustrate how values-based screens can be used to meet clients' social and financial objectives. These include: the Dow Jones Sustainability Index and the MSCU ESG Indices. Both have generated strong financial returns while meeting various social expectations.

Annex

Example of Social Screen: Blue Hub selected on these criteria by a Fund

- Affordable housing
- Issues critical to the CDFI market
- Innovating to improve solutions for the communities they serve
- BlueHub Loan Fund's impact screening to promote racial equity
- Impact scoring system that prioritizes end beneficiaries and helps them screen investments for impact factors, highlighting scale of impact, quality and depth of outcomes experienced by beneficiaries
- Integrate racial equity principles into their lending practices
- Diverse board and senior management team
- Extensive history
- Impact investors' reporting data

Performance in the Bond Guarantee Program

The Small Business Jobs Act of 2010[1] enabled the U.S. Treasury's CDFI Fund to guarantee issuances of $100 million or more that ultimately are purchased through the Federal Financing Bank. Since 2013, the first issuance year, CDFIs have issued such bonds annually for a total of $3.9 billion as of FY 2020. A statutory requirement which has been maintained requires that, at issue, the bonds were a negative or zero subsidy. That is, the credit risk adjusted value or cost of the bonds had to be equal to or greater than U.S. Treasury cost of funds. The CDFI Fund guarantees the principal and interest payment by issuer to the Federal Financing Bank. The program is structured such that the issuer maintains a (3%) loss reserve, and collateral supporting the bond funding is typically overcollateralized (OC) with the OC dependent on the credit risk of the issuer for reasons including managing credit risk exposure and meeting the program's statutory zero or negative subsidy requirement.

The issuance of the bonds is a "dry closing." That is, legal documents represent the commitments of Treasury and issuer, but proceeds are not funded. The CDFIs submit for approval a request for disbursement in one of the approved asset classes, which, for example, may include the loan purpose, amount, perfected documents of the collateral for the loans (e.g., mortgages). The bond loans can be for shorter periods than bond maturity and once fully paid can be reinvested in additional bond loans. Interest is typically paid quarterly (but also could be semi-annually) with funds held in escrow for payments through a trustee/custodian. The bond rates are established with the Federal Financing Bank dependent on maturity at related Treasury rates and can include a liquidity premium. The bond loans usually carry a spread above the bond interest rate.

Note that the issuer passes through funds to CDFIs through bond loans to invest in approved asset classes (commercial real estate, multifamily and single-family mortgages, small business, charter schools, health care, non-profit loans, etc.). These issuers are known as Qualified Issuers (QI) who are responsible for managing the bond issue and relationships between the CDFIs receiving the bond loans and Federal Financing Bank and Treasury.

CDFI Fund underwriting is based on a risk rating system akin to a bond rating approach and then compares the rating to associated credit risk. The ratings are arrived through a CAMEL (capital, asset quality management, earnings, liquidity) type approach: the financial ratio and trend-line analyses serve as the basis for a default projection, and the result is applied to a rating agency-like risk analysis. Based on asset class, OMB establishes recovery rates as it does for other federal credit programs. The result is then applied to the OMB federal credit subsidy model to ensure the risk-adjusted outcome results in a negative or zero subsidy.

In addition to approving disbursements, the CDFI Fund services the bonds, loans, covenant compliance, performance of collateral, and OC. This includes tracking the CDFI financial condition after issuance including updates of its ratings of the CDFIs. There are CDFIs that have participated in more than one bond issue. OC is based on principal. The CDFI typically replaces non-performing loans used in bond issuance and loan collateral.

[1] H.R.5297 - 111th Congress (2009-2010): Small Business Jobs Act of 2010 | Congress.gov | Library of Congress

Approximately 25 CDFIs have been funded through the program. A number subsequently issued bonds and notes rated by S&P. Total S&P rated data are below in the Credit Rating Agency section. The majority of S&P rated CDFIs had or are participating in the CDFI Bond Guarantee Program.[2]

To date, there is no default on the bonds with maturities up to 30 years.

[2] This section draws from publicly available documents and information. See this link for more information CDFI Bond Guarantee Program | Community Development Financial Institutions Fund (cdfifund.gov) and Reference Documents | Community Development Financial Institutions Fund (cdfifund.gov)

Performance in the Small Business Loan Fund

The following is a discussion of the investment performance of Community Development Loan Funds in the U.S. Treasury Small Business Lending Fund (2011-2021):

The Small Business Jobs Act of 2010 established the Small Business Lending Fund or SBLF. Through the SBLF, 51 community development loan funds issued $104 million of Equity Equivalent securities (EQ2s) to the U.S. Treasury in 2011. The EQ2 had a 10-year stated maturity with a 2% interest rate for 8 years and a step-up to 9% after 8 years as an incentive to redeem and to meet the EQ2 criteria of the loan funds having the option to extend the term. As a technical matter, the EQ2 had an 8-year term with the option to extend for 2 more years. The EQ2 is an unsecured deeply subordinated, junior to all other debt and senior to only "equity," intended to be a hybrid security and comparable to preferred stock for CDFIs. The CDFI loan funds had to be non-profits and CDFI Fund certified to participate in SBLF. One of the objectives of the CDFI Industry and the loan funds was to create a documented record of taking long term debt (10 years) and repay that debt. Although there are now some longer-term facilities (e.g. the 30-year CDFI Bond Guarantee program and S&P rated bonds), 10-year SBLF EQ2s were longer term financing than available at the time. The vast majority of participating loan funds redeemed in 2019, when the rate stepped up to 9%. Three redeemed before the end of 2019, and 2 of them redeemed in 2021 before the extended maturity date. The other is addressed below. Four successfully redeemed before 2019.

The SBLF program was designed using an incentive mechanism to encourage participant lending to small businesses.

- For community banks, the SBLF program was structured to encourage small business lending through a dividend or interest rate incentive structure. The initial rate payable on SBLF capital was, at most, 5 percent, and the rate fell to 1 percent if a bank's small business lending increased by 10 percent or more. If a bank had not repaid the SBLF funding after four and a half years, the rate increased to 9 percent.
- For CDLFs, the SBLF program was structured to encourage small business lending through access to low-cost capital at a 2 percent interest rate. At the eight-year anniversary, CDLFs have the option to extend the maturity of the investment for two years at a 9 percent interest rate.

The program achieved the objectives. Fifty of the 51 CDFI loan funds never missed a quarterly interest and repaid in full by the tenth-year maturity dates. The attached spreadsheet specifies the participants and payment record. The participants paid $16.4 million in interest. The SBLF program which included a community bank segment in addition to the loan funds was a negative subsidy program, that is, the program revenues exceeded the Treasury cost of funds.

The additional lending capacity provided by SBLF capital—coupled with the program's dividend or interest rate incentives in the case of community banks—encouraged institutions to increase small business lending. Because of the program's structure, increases in small business lending could not be directly linked to the use of SBLF funds. However, the program's impact could be observed indirectly. [3]Treasury invested more than $4.0 billion in 332 institutions through the SBLF program. These amounts include investments of $3.9 billion in 281

[3] The section draws from Small Business Lending Fund | U.S. Department of the Treasury and SBLF Program Reports | U.S. Department of the Treasury Additional information can be found about Small Business Lending Fund through these links.

community banks and $104 million in 51 CDLFs. Collectively, these institutions operated in more than 3,000 locations across 47 states and the District of Columbia. The SBLF program periodically makes public reports that includes information on the institutions that exited or continued to participate in the program (54 participants as of June 30, 2018, for example, the great majority of which were CDFIs at that point of the program). One of the reports presents small business loan growth since the inception of the program based on submission on quarterly supplemental reports on small business lending.

The only exception to timely payment was the bankruptcy in which the CDFI Fund participant was current for 8 years and then went into bankruptcy which is still pending. SBLF may recover some of the funds through bankruptcy proceedings. That CDFI failed as a result of excessive rapid growth and management issues. The value of the assets in liquidation was unavailable.

SBLF Transactions Report as of 10/31/2021
Dividend,Interest,and Capital Repayments

Institution				Initial Investment		Capital Repayment Details	Amount Outstanding as of 10/31/2021	Dividend/Interest/Fee Payment Type	Total Dividend/Interest/Fee Payments		Total Payments Received to Date (includes Capital
Loan Fund	Name	City	State	Date	Amount	Total Repayment to Date			Amount Expected	Amount Received [1]	
CDLF	Access to Capital for Entrepreneurs, Inc. (Appalachian Community Enterprises, Inc.)	Cleveland	GA	09/21/2011	188,000	188,000	-	Interest	29,996	29,996	217,996
CDLF	Boston Community Loan Fund, Inc.	Roxbury	MA	09/22/2011	4,410,000	4,410,000	-	Interest	685,755	685,755	5,095,755
CDLF	Bridgeway Capital, Inc.	Pittsburgh	PA	09/14/2011	1,820,000	1,820,000	-	Interest	255,508	255,508	2,075,508
CDLF	BUILDING HOPE...A CHARTER SCHOOL FACILITIES FUND	Washington	DC	09/21/2011	2,091,000	2,091,000	-	Interest	710,940	710,940	2,801,940
CDLF	California Coastal Rural Development Corporation	Salinas	CA	09/21/2011	870,000	870,000	-	Interest	138,813	138,813	1,008,813
CDLF	Capital for Change, Inc. (Greater New Haven Community Loan Fund)	New Haven	CT	09/13/2011	525,000	525,000	-	Interest	84,000	84,000	609,000
CDLF	Capital Impact Partners (NCB Capital Impact)	Arlington	VA	09/22/2011	8,218,000	8,218,000	-	Interest	1,313,967	1,313,967	9,531,967
CDLF	CEN-TEX Certified Development Corporation	Austin	TX	09/21/2011	489,000	489,000	-	Interest	78,213	78,213	567,213
CDLF	Charleston Citywide Local Development Corporation	Charleston	SC	09/20/2011	1,000,000	1,000,000	-	Interest	159,778	159,778	1,159,778
CDLF	Citizen Potawatomi Community Development Corporation	Shawnee	OK	09/21/2011	490,000	490,000	-	Interest	78,264	78,264	568,264
CDLF	Coastal Enterprises, Inc.	Brunswick	ME	09/21/2011	2,316,000	2,316,000	-	Interest	340,967	340,967	2,656,967
CDLF	Colorado Enterprise Fund, Inc.	Denver	CO	09/20/2011	463,000	463,000	-	Interest	75,238	75,238	538,238
CDLF	Common Capital, Inc. (The Western Massachusetts Enterprise Fund, Inc.)	Holyoke	MA	09/21/2011	200,000	200,000	-	Interest	17,489	17,489	217,489
CDLF	Community First Fund	Lancaster	PA	09/20/2011	862,000	862,000	-	Interest	133,993	133,993	995,993
CDLF	Community Health Center Capital Fund, Inc. (Capital Link, Inc.)	Boston	MA	09/21/2011	198,000	198,000	-	Interest	31,647	31,647	229,647
CDLF	Community Loan Fund of the Capital Region, Inc.	Albany	NY	09/21/2011	478,000	478,000	-	Interest	12,216	12,216	490,216
CDLF	Community Reinvestment Fund, Inc.	Minneapolis	MN	09/22/2011	5,100,000	5,100,000	-	Interest	815,433	815,433	5,915,433
CDLF	Community Ventures Corporation	Lexington	KY	09/26/2011	1,045,000	1,045,000	-	Interest	338,896	338,896	1,383,896
CDLF	Craft3 (ShoreBank Enterprise Group, Pacific)	Ilwaco	WA	09/22/2011	1,867,000	1,867,000	-	Interest	298,513	298,513	2,165,513
CDLF	ECDC Enterprise Development Group	Arlington	VA	09/20/2011	320,000	320,000	-	Interest	50,311	50,311	370,311
CDLF	Economic and Community Development Institute, Inc.	Columbus	OH	09/20/2011	203,000	203,000	-	Interest	29,976	29,976	232,976
CDLF	Enterprise Community Loan Fund, Inc.	Columbia	MD	09/21/2011	8,817,000	8,817,000	-	Interest	1,410,230	1,410,230	10,227,230
CDLF	Federation of Appalachian Housing Enterprises, Inc.	Berea	KY	09/15/2011	2,063,000	2,063,000	-	Interest	328,705	328,705	2,391,705
CDLF	Forward Community Investments, Inc.	Madison	WI	09/15/2011	470,000	470,000	-	Interest	75,096	75,096	545,096
CDLF	IFF	Chicago	IL	09/15/2011	8,294,000	8,294,000	-	Interest	1,326,118	1,326,118	9,620,118
CDLF	Impact Seven, Incorporated	Almena	WI	09/26/2011	4,000,000	4,000,000	-	Interest	593,778	593,778	4,593,778
CDLF	La Fuerza Unida Community Development Corporation	East Norwich	NY	09/22/2011	42,000	42,000	-	Interest	2,315	2,315	44,315
CDLF	Leviticus 25:23 Alternative Fund, Inc.	Elmsford	NY	09/22/2011	750,000	750,000	-	Interest	119,833	119,833	869,833
CDLF	Low Income Investment Fund	San Francisco	CA	09/15/2011	7,490,000	7,490,000	-	Interest	1,178,011	1,178,011	8,668,011
CDLF	Main Street Launch (OBDC Small Business Finance)	Oakland	CA	09/14/2011	219,000	219,000	-	Interest	33,945	33,945	252,945
CDLF	Midwest Minnesota Community Development Corporation	Detroit Lakes	MN	09/14/2011	4,600,000	4,600,000	-	Interest	289,289	289,289	4,889,289
CDLF	Montana Community Development Corporation	Missoula	MT	09/15/2011	585,000	585,000	-	Interest	42,900	42,900	627,900
CDLF	Mountain BizCapital, Inc.	Asheville	NC	09/26/2011	197,000	197,000	-	Interest	31,345	31,345	228,345
CDLF	Nebraska Enterprise Fund	Oakland	NE	09/21/2011	197,000	197,000	-	Interest	31,509	31,509	228,509
CDLF	Nonprofits Assistance Fund	Minneapolis	MN	09/21/2011	686,000	686,000	-	Interest	109,722	109,722	795,722
CDLF	Northeast South Dakota Economic Corporation	Sisseton	SD	09/21/2011	1,000,000	1,000,000	-	Interest	127,382	127,382	1,127,382
CDLF	Northside Community Development Fund	Pittsburgh	PA	09/22/2011	250,000	250,000	-	Interest	39,875	39,875	289,875
CDLF	Opportunity Fund Community Development	San Jose	CA	09/20/2011	2,236,000	2,236,000	-	Interest	357,760	357,760	2,593,760
CDLF	Partners for the Common Good, Inc.	Washington	DC	09/20/2011	1,009,000	1,009,000	-	Interest	161,328	161,328	1,170,328
CDLF	PeopleFund	Austin	TX	09/15/2011	500,000	500,000	-	Interest	79,917	79,917	579,917
CDLF	Primary Care Development Corporation	New York	NY	09/21/2011	4,000,000	4,000,000	-	Interest	635,333	635,333	4,635,333
CDLF	Rural Community Assistance Corporation	West Sacramento	CA	09/21/2011	4,300,000	4,300,000	-	Interest	687,761	687,761	4,987,761
CDLF	Rural Electric Economic Development, Inc.	Madison	SD	09/20/2011	1,230,000	1,230,000	-	Interest	196,800	196,800	1,426,800
CDLF	South Carolina Community Loan Fund (Lowcountry Housing Trust, Incorporated)	North Charleston	SC	09/21/2011	392,000	392,000	-	Interest	62,698	62,698	454,698
CDLF	South Eastern Development Foundation	Sioux Falls	SD	09/21/2011	240,000	240,000	-	Interest	34,133	34,133	274,133
CDLF	The Progress Fund	Greensburg	PA	09/21/2011	1,052,000	1,052,000	-	Interest	149,559	149,559	1,201,559
CDLF	The Reinvestment Fund, Inc.	Philadelphia	PA	09/14/2011	11,708,000	11,708,000	-	Interest	1,872,630	1,872,630	13,580,630
CDLF	TruFund Financial Services (Seedco Financial Services, Inc.)	New York	NY	09/22/2011	2,500,000	2,500,000	-	Interest	399,722	399,722	2,899,722
CDLF	Valley Economic Development Center, Inc. [9]	Van Nuys	CA	09/21/2011	661,000	-	661,000	Interest	237,762	99,517	99,517
CDLF	Vermont Community Loan Fund, Inc.	Montpelier	VT	09/20/2011	1,247,000	1,247,000	-	Interest	194,047	194,047	1,441,047
CDLF	Wisconsin Women's Business Initiative Corporation	Milwaukee	WI	09/21/2011	391,000	391,000	-	Interest	62,495	62,495	453,495
Total					104,279,000	103,618,000	661,000		16,551,909	16,413,665	120,031,665

[1] Valley Economic Development Center, Inc. filed for bankruptcy protection on July 2, 2019.

Credit Agency Ratings

Figuratively speaking, the credit agencies hold the keys to the capital markets: fixed-income investors rely on the ratings to assess credit risk and required risk premia.

The great strides the CDFI industry has made over the past decade in gaining access to the conventional capital markets for debt instruments have been firmly facilitated by public ratings by global credit rating agencies. As the chart below shows, since 2015, S&P has provided ratings of A or better to 11 CDFIs. CDFIs have issued rated debt of $126 million in 2016, $250 million in 2017, $350 in 2018, $383 million in 2019, and $250 million in 2020. Clearly the large CDFIs that have gotten these ratings are providing the data and the reporting needed to satisfy the rating agency analysts and investors. By the same token, the rating agency analysts and investors are increasingly comfortable with the assets, cash flows, management capacities, and the performance of mission objectives demonstrated by these CDFIs.

CDFI	Issuer Credit Rating/Outlook 12.31.20	Original Rating Date	Bonds Issued
Clearinghouse CDFI	A-/Stable	April, 1 2015	N/A
Housing Trust Silicon Valley (HTSV)	AA-/Stable	28-Apr-15	N/A
Reinvestment Fund (RF)	A+/Stable	Oct. 9, 2015	$126 MM
Local Initiatives Support Corporation (LISC)	AA-/Stable	Sept. 20, 2016	$250 MM
Capital Impact Partners (CIP)	A/Stable	Jan. 23, 2017	Up to $350 MM
Enterprise Community Loan Fund (ECLF)	A+/Stable	21-May-18	$50 MM
Century Housing Corp	AA-/Stable	Aug. 21, 2018	$235 MM
Raza Development Fund	AA-/Stable	Oct. 8, 2018	$50 MM
LIIF	A-/Positive	8-Apr-19	$100 MM
Community Preservation Corp (CPC)	AA-/Stable	Nov. 7, 2019	$150 MM
BlueHub Loan Fund	A-/Stable	Jan. 8, 2020	$75 MM

Discussions with S&P about the CDFI Equity Project began with their specialists in affordable housing and proceeded to their specialists in CDFI evaluation, and finally with their structured finance team. Through the course of the discussions, it became evident that evaluation of CDFI equity would present a significantly different challenge than that presented by the CDFI debt instruments. While the analysts were well versed and comfortable with the operations and the financial conditions of CDFIs from the standpoint of debt, equity required additional data support as the following memo indicates.

The memo below shows the questions asked by the S&P Structured Finance team and the responses provided by the CDFI Equity Project. *Note: At the time, the Platform (called "Source") was conceived of as a Beneficial Corporation that had little to no debt, and would have a floating lien on assets of the SPVs:*

[Opening Statement from the CDFI Equity Project:]

"Over the past 2-3 decades, anecdotally, CDFIs have performed better than conventional lenders in terms of managing the credit risk in their low-moderate income portfolios. But they do not have comparable access to equity in the capital markets to help capitalize their efforts. This initiative develops the hard data to prove it, and also provides the safest and most amenable structure for accessing equity.

S&P QUESTIONS:

1. ***What is the promise to pay?***

The SOURCE ("Source") which is investing in the preferred stock of the SPVs (that are 100% owned by the non-profit CDFIs) issues plain vanilla preferred stock to conventional investors. The preferred stock issued by the Source must be rated. We have not yet determined the specific attributes of the preferred stock issued by the Source (i.e., whether, perpetual, non-cumulative, sinking fund, etc.), so the type of payment being promised has not yet been finalized. However, the promise to pay must carry, without deviation, the standard language and remedies for similar preferred stock in the marketplace.

2. ***What is the collateral?***

We are looking to both strong positive cash flow and material over-collateralization.

Cash Flow. The Source will look for a yield on the SPV preferred stock it purchases that covers (1) the dividends on the rated preferreds that it issues to the conventional investor; (2) its operating costs; (3) dividends on the common stock that it issues; and (4) sufficient profit to enable it to grow and raise its common dividend to a market rate within 10-15 years. It is important to note that the Source will be run on a delegated authority basis, with the latest predictive risk management and graduated remedies in the market. The model is based on the SBA's current structure, which minimizes the need for staff by concentrating on automated portfolio monitoring and analysis, and credit audit skillsets.

Collateral. There are three sources of repayment from collateral at three different levels of the structure:

A. *The Source. The primary obligor for the rated preferreds is the Source. It is a beneficial corporation capitalized by $100mm of common stock. The common stock is at a concessionary rate which is provided by large institutions that have been helping fund the CDFI sector for many years. The rated preferreds do not exceed the value of the common stock—so there is always at least a 50% asset shrinkage margin that cushions the preferred stock investor. This cushion is increased by maintenance of a minimum of 10% in cash and investments on the Source's balance sheet. While the Source does have liquidity lines, it does not have ongoing debt. Hence the rated preferred has a senior claim on all cash flows and collateral, and the investors are covered at least twice by the value of the SPV preferred collateral.*
B. *The SPV Portfolio Assets. The Source's SPV preferreds have a floating lien on all of the loans in each of the portfolios of the SPVs. The floating lien is subordinate to the senior liens held by banks that provide the bulk of the funding for the loans. The Source's floating lien is senior to the equity provided by the CDFI that owns the SPV. The general breakdown for the SPVs is: 70% senior debt, 20% SPV preferred,*

10% equity provided by the parent CDFI—though more equity may be required for different classes of assets (i.e., home mortgages vs development loans). It should be noted that there will be material diversification in terms of asset type, geography, and originators as well as the SPVs.

C. *The Parent CDFI. Each CDFI that is participating in the initial stage is rated highly by AERIS. They are all large, and have been conducting business for one or more decades (there may be one exception). The Source does NOT have a claim on the CDFI assets, other than those that have been sold and placed in the SPV. However, because access to grant and other forms of net asset funding are not keeping up with the expanding need for community development financing, the owning CDFIs need to keep this avenue open. It is highly likely that they will replace any loans that deteriorate in the SPVs with new or better loans in order to continue access to the Source. The metrics and analytics of the Source are predictive and are designed to help the participating CDFIs identify shaky assets. Benchmarks are established at the outset.*

3. ***Are there third party dependencies?***

There are no third party dependencies, except where the participating CDFIs have outsourced their loan servicing.

There are two exogenous factors (other than the general economy) which can affect volume of activity: (1) grant funding sources: material changes in federal or institutional community development funding can spur or curtail lending activity; and (2) changes in common stockholder objectives. The industry generally, and the participating CDFIs in particular, have demonstrated resilience in the face of the former. Changes in the latter will be addressed at the outset.

4. ***Is there a public transaction you could point to which is similar to this proposal?***

We are not aware of any similar public transaction. There are two key reasons: (1) The availability of common stock at a steeply reduced yield in the initial years; and (2) the positioning of preferred stock as a senior obligation. The availability of the concessionary common stock is a function of the longstanding commitment by major institutions to the sector. The positioning of the preferred stock as a senior obligation is comparatively expensive vis-à-vis debt, particularly in this environment, but we thought it would be necessary given the path-breaking nature of the program and the objectives."

The Project proposal failed to satisfy the collateral and similar transaction questions:

1. Question 2: a subordinated claim on collateral at the SPV level was not considered to be of value because there was no hard data to support a valuation for CDFI organizational failure—or for loans and loan portfolios. This meant that no amount of over-collateralization and/or absence of debt would suffice for a rating. In later versions of the Source, debt was introduced to the platform and the subordinated claim on SPV assets was eliminated (compromised the notion of equity). So the current version of the platform—the Source LP—would also fail.
2. Question 4: while there are many forms of public/private partnerships and project finance, none has been found that combines non-profits with for-profits in the lending business with market rate AND concessionary rate equity.

In order to achieve an investment grade rating, the Project addresses the shortcomings as follows:

1. For the inability to value CDFI assets in liquidation: Develop comprehensive data on the value of CDFI loans, loan portfolios, and organizations in liquidation. Merge this data into a single public compendium of analytical data for the purposes of lender and investor information. Hard data will eliminate the need to rely on individual, fragmented, and/or anecdotal data.
2. For the absence of a precedent or a comparable equity issue: By aggregating CDFI loan portfolios into a single large portfolio and running it on a private unrated platform for 5 to 10 years, a precedent and a track record will be established and documented.

These two strategies incorporate a material change in the path to public equity: in order to justify an investment grade rating, there must be an interim step involving a platform in the private market operating over a period of 5-10 years. The preferred stock or its equivalent would not be rated, and the level of initial subsidy would need to be higher in the Platform's common equity.

This interim step is the driver for establishment of a Limited Partnership ("Source LP") for Stage One of the CDFI Equity Project. The quality of the data and the rating agency's criteria for establishing confidence in a track record will dictate whether the duration is closer to 5 than to 10 years. This interim step is structured to be successful on its own over time. However, the initiation of Stage Two—entry into the public market—can assure success by (1) creating liquidity and lower pricing for both the preferred and common interests; or (2) creating the capacity to purchase the whole set of CDFI SPV portfolios and providing an exit for the Source LP investors.

Data That Define CDFI Risk

In order to obtain system-wide CDFI risk information that could be used to establish asset valuations, the Project followed the lead of the federal depository regulators: obtain key performance indicators for each certified CDFI and develop benchmarks on an aggregated basis. This would be followed by segmentation of the aggregated data by type of CDFI, size of CDFI, types of loans, capital, liquidity and sustainability ratios, development services, loan volumes, loss and delinquency rates, census tracts, and demographics. This would provide the analytical foundation for evaluating individual CDFI performance. For the purposes of obtaining an investment grade rating, this would provide a basis for developing trend line analysis at both the individual and segment level, which, in turn, would provide context for the business failure and asset liquidation percentages that the rating agencies needed.

Following the Project request, the CDFI Fund provided the following information, covering all certified CDFIs:

"CDFI Fund Data Sets:
Available on CDFI Fund Website (http://www.cdfifund.gov)
(1) CDFI Program and NACA Program Awardee Data Release Data – Universe of Program Awardees

- 2017

(2) List of Certified CDFIs (current as of 12/16/2020)

Available through Freedom of Information Act (FOIA) Request

(1) Annual Certification and Data Collection Report (ACR) – Universe of All Certified CDFIs required to report that respective year

- 2016
- 2017
- 2018
- 2019
- 2020 (Not Finalized)
- 2021 (In Progress)

Data Fields vary by year, but here is the selection from 2019:

- Allowance Loan and Lease Losses Reserve
- Average Assets
- Cash and Cash Equivalents
- Current Assets
- Current Liabilities
- Earned Revenue
- Government Grants
- Interest Expense
- Interest Income
- Operating Expenses
- Operating Revenue
- Organization Type

- Provision for Loan Losses
- Restricted Cash and Cash Equivalents
- Temporarily Restricted Net Assets
- Tier 1 Capital
- Total Assets
- Total Charge-Offs
- Total Equity
- Total Expenses
- Total Liabilities
- Total Net Assets
- Total Net Worth
- Total Outstanding Investment Portfolio
- Total Outstanding Loan Portfolio
- Total Recoveries
- Total Revenue
- Total Value of Non-performing Assets
- Unrestricted Cash and Cash Equivalents
- Unrestricted Net Assets
- Values from audited financial statement
- Total Financing Capital

Identity of individual CDFIs would be masked…"

The data in the ACRs that the CDFI Fund collects contain CDFI-specific data that were far more detailed than the datapoints above. The additional datapoints included essential items such as the number of loan modifications and the incidence of late payments, staff turnover, management turnover, audit findings, and adverse legal proceedings—all useful to the purpose.

As discussed in the section in the SPV chapter on SPV Reporting and Data Management, however, additional data are needed for rating agency valuation of assets and operations, including (but not limited to) the following:

- The number and dollar amount of loan volume by loan type
- The number and dollar amount of loans maturing and prepaying
- Total dollar repayments
- Average interest rates and revenue preferably by loan type
- Dollar and number of loan modifications
- Dollar and number of loans modified more than once
- Dollar and number of loans to first time borrowers
- Dollar and number of loans to new customers
- Loans to new businesses or buildings
- Loans to existing businesses or buildings
- Cost per loan for origination, servicing, and administration functions

- Dollar and number of loans sold
- Dollar value of other assets sold
- Average turnover of accounts payable and accrued expenses
- Dollar and number of late payments
- Organizational defaults and/or financial restructuring
- Organizational merger or purchase
- Cessation of lending business
- Bankruptcy

These datapoints define the major components of the cash flow for the assets and the organization, as well as the financial condition for any lending entity. As such they are essential to making the case for an investment grade rating. A full list of datapoints for making the equity case for the rating agencies is in *Appendix I. CDFI Data for Making the Rating Agency Case*.

Assisting in the development of this analytical platform was not within the scope of the CDFI Equity Project. Data from 2016 onward were comprehensive, but the data were raw and needed to be cleaned. Areas of data improvement included: (i) eliminating duplication; (ii) conflicting data between loan level reporting and ACR reporting; and (iii) full compliance timely from the 1300 certified CDFIs. This process of data cleansing would be time-consuming. Moreover, some of the ACR data are confidential, and as a result, efficient cleaning would require authorized CDFI staff. The addition of the necessary datapoints would also likely involve an extended federal comment and approval process. Nevertheless, the data that the CDFI Fund are collecting can serve as the foundation for the analytical platform that informs the rating agencies on what they need to know in the way they need to know it.

One of the key areas that was not addressed in the ACR was the issue that S&P was most focused on: what is the value of organization and portfolio assets in liquidation? Upon request, the CDFI Fund also researched and provided the names and addresses of all of the CDFIs that had been certified since 2006. This listing enabled the Project team to approach Dun & Bradstreet with the expectation of finding how many CDFIs had failed over a 15-year period. Obtaining that data would begin to pin down the rate of organizational failure and perhaps the amount of capital lost as a percentage of capital invested. This could potentially approximate—or at least provide a starting point—for the rating agency's objective of valuing CDFI organizational and portfolio assets in liquidation.

Dun & Bradstreet and Paydex

The CDFI Fund provided approximately 1,500 names of CDFIs that were certified since 2004, together with their addresses and DUNS numbers. The Project took these names and numbers to Dun & Bradstreet to see how many continued to operate and how many had failed.

Dun & Bradstreet matched the names with its unique DUNS numbers and found an approximate 95% match. D&B provided information on the following:

1. Name, phone, email, web address, industry/business activity type, industry codes, size, and country/region identification.
2. Information about legal events associated with a company, such as: registrations with local authorities, suits, liens, bankruptcies/financial embarrassment.
    - Out of Business indicator
    - Bankruptcy indicator
    - Bankruptcy date
    - Open bankruptcy indicator
    - Lien indicator
    - Debtor in possession indicator
    - Criminal indicator
    - Criminal proceedings
    - Also includes registrations with local governments, suits, financing statements, public notices, U.S. government awards data, and special events information.

The search showed 8 bankruptcies in the CDFI sector. The data can be summarized briefly as follows:

ShoreBank Corporation:

- In 2008, the bank had more the $2.4 Billion in assets.
- Was the largest community development bank.
- Reason For Failure**:** experienced asset quality problems, which were centered in residential rehabilitation loans, both multi-family and single family, and condominium conversion loans. Loan and operational losses depleted earnings and eroded capital to the point where the bank was no longer viable without recapitalization. The Illinois Department of Financial and Professional Regulation closed the Bank.
- ShoreBank was 100 percent owned by ShoreBank Corporation, a two-bank holding company. Although ShoreBank, Chicago represented a significant portion of the company's asset base, the holding company continues to operate. The holding company's investment in ShoreBank is now worthless. https://www.fdic.gov/news/press-releases/2010/pr10193a.pdf
- In August 2010, the bank was declared insolvent, and Urban Partnership Bank acquired ShoreBank's core deposits and most of the assets of ShoreBank Corporation's Midwest bank out of receivership from the FDIC.

Albina Community Bancorp:

- Filed for Chapter 7 liquidation in 2014.
- $1.3 Million in assets, $7.5 Million in liabilities.
- The main unsecured creditors included U.S. Bank National Association and Carroll Community Development LLC. Brad A. Goergen and Mark D. Northrup of Graham & Dunn PC acted as legal counsel to the debtor.
- The bank had been deferring interest payments for five years, and Hildene Capital Management, a New York hedge fund, had threatened to force the company into involuntary liquidation if it defaulted on the payments.

Hawaii Community Loan Fund:

- Filed for chapter 11 reorganization in Feb. 2005.
- Assets were $1.8 Million. Liabilities were $2.2 Million.
- HCLF ran into trouble when they had to charge off a number of loans that had been made to local entrepreneurs.
- Largest unsecured creditors included the Bank of Hawaii, owed $1.2 million, and American Savings Bank, owed $500,000.
- The executive director stated he wanted to save the fund, but it would take donations and grants in order to do so.

Sparc: Strategic Partnership & Research Collaborative (University of Minnesota):

- Chapter 7 bankruptcy.
- Assets were $2,500. Liabilities were $925,406.

Fame Assistance Corporation/Fame Renaissance:

- Inadequate information.

Valley Economic Development Center:

- Filed for chapter 11 bankruptcy.
- About 20 employees were let go but were provided assistance from Valley Economic Alliance.
- Both Assets and Liabilities were listed between $10 and $50 Million.
- High turnover rate in leadership since 2016.

Lafayette Neighborhood Housing Services, Inc.:

- Inadequate information.

Pueblo Co-op

- Inadequate information.

The D&B reports on these names did not include information on the value of the assets or the value of the organizations in liquidation. But the small number of bankruptcies and small size of assets in liquidation relative to the number of certified CDFIs and total assets under management is a positive indicator. The best way to dig into these numbers is to conduct an in-depth search for articles and reports on each of the bankruptcies—as well

as Lexis/Nexis—to determine the extent of losses in each instance as they pertain first to the assets and secondly to the organizations. It would be a small but important first step in addressing the value of asset and organizational liquidation values.

There is a bigger challenge, though, in the data. The bankruptcies found by D&B above do not represent the total number of liquidations—or even the total number of bankruptcies among certified CDFIs. The chart below shows a 10.63% "out of business" indicator for CDFI sector—almost 18 times the number of bankruptcies.

OUT OF 1,505 CDFIS TRACKED SINCE 2004	Number	Percent
CDFIs with this event ever:		
Bankruptcy	9	0.60%
Debtor in Possession	1	0.07%
Criminal Proceedings	4	0.27%
Liens Placed (Primarily Tax Liens)	54	3.59%
D&B Out-of-Business Indicator	160	10.63%

While the bulk of the "out of business" CDFIs may be a product of a name change, there are likely to be mergers or acquisitions in which portfolios and organizational assets are to be purchased, absorbed, or otherwise transferred to another organization with a different name and DUNs number. In an acquisition or a merger, there will be an indication of the value of the loan and organizational assets changing hands. There will also be incidences where obligations are forgiven. This is the information that S&P is looking for. Research may have to rely on anecdotal and institutional history to coax out the data, but the effort is essential for establishing a solid foundation for valuations. Since much of this information will ultimately be of a private nature, it would be appropriately pursued at the Agency level.

There is angle from which organizational valuation can be viewed: organizational pay history.

Pay history is arguably the best early warning indicator of organizational difficulty. It has been gaining momentum as an excellent indicator of financial condition at the organizational level. Dun & Bradstreet provided a time series of Paydex scores to the Project to show how the promptness of vendor payables by a CDFI is used to indicate the strength or weakness of the organization's management of cash, and hence, how vulnerable it may be to events that lead to liquidation.

The chart below is a portion of the Paydex submitted to the Project. In the fourth column highlighted in yellow it shows the average running score of the organization in terms of paying its vendors and suppliers promptly. Scores are from 0 to 100, with 0 indicating incapacity to pay. In the next column it shows the low score for the year. In the final two columns it gives a grade derived from how all businesses and organizations pay their vendors and suppliers.

match primary business name	Dup Name	paydex _avg	paydex_low	paydex_avg_bn	paydex_low_bn
CDFIs with this event ever:					
Utah Center for Neighborhood StabIlization	0	80	80	PROMPT	PROMPT
United Homeowners of Illinois FCU	0				
Wisconsin Literacy Inc	0	80	80	PROMPT	PROMPT
Corporacion Para El Desarrollo Economico Trujillo	0				
Native Capital Access	0	80	80	PROMPT	PROMPT
Stylecraft Printing co	0	78.04166	77	GOOD	GOOD
First Unitarian Universalist Church of San Antonio	0	80	80	PROMPT	PROMPT
Centricity Credit Union	0	79.83334	79	GOOD	GOOD
East Branch Ginger LLC	0	79.1875	67	GOOD	FAIR

The Paydex data provide additional detail which enabled the Project to see the following results for the current CDFIs:

These numbers indicate the number of vendor/creditor relationships that the CDFIs had which experienced slow payments during the year. They do NOT indicate the number of CDFIs that have generated the slow payments, as one CDFI may have many relationships and many slow payments. Nevertheless, the 7.1% number is a material number. An important part of making the case to the rating agencies will be to show how this number is better—if not among CDFIs as a whole, then certainly among the CDFIs participating in the Equity Project.

Perhaps the best potential source of information on the liquidation value of CDFI loans and loan portfolios—as well as on payment performance—is the banking industry. Since banks have been among the largest partners and have had the largest amount of senior debt exposure to the industry, they would, as a group, have the most complete and definitive information on CDFI credit—and asset values in liquidation. However, issues of privacy and propriety as well as the difficulties of keeping the information confidential sideline this potential source of information.

The best way to produce the hard data is to generate it—by doing it. This is one of the key justifications for proceeding with a Limited Partnership and capitalization in the private market.

CDFIs That Have Issued Equity

Does the absence of hard data on the liquidation value of CDFI portfolio and organizational assets prevent the issuance of CDFI equity? Absolutely not!

Two CDFIs, Clearinghouse CDFI and Community Development Trust, have been issuing preferred AND common equity to investors for upwards of twenty years. CDT has been able to issue convertible preferred—potentially offering both preferred and common attributes over time. Total issues amount to almost $400 million.

So we know that there already are ways for CDFIs to obtain equity from investors to help capitalize their loans and their organizations.

Equity investors in Clearinghouse have included:

- Arizona Community Foundation
- Banc of California
- Bank of Hope
- Cathay Bank
- Chase
- CIT
- Citizens Business Bank
- Comerica Bank
- Farmers & Merchants Bank
- Farmers Bank
- First Bank
- First Choice Bank
- First Foundation
- Pacific Premier Bank
- Pacific Western Bank
- PNC Bank
- State Bank of India
- US Bank
- Wells Fargo
- Western Alliance Bank

Equity investors in CDT have included:

- Allstate Investments LLC
- Apple Bank for Savings
- Bank of America Merrill Lynch
- BNY Mellon
- Boston Private Bank & Trust
- Capital One
- Capital Impact Partners
- CIBC Bank USA

- Citibank Community Development
- Citizens Bank
- Compass Bank
- Deutsche Bank
- Fannie Mae
- Fifth Third Bank
- HSBC Bank USA, N.A.
- JP Morgan Chase
- LISC
- MetLife
- Morgan Stanley
- PNC Bank
- Prudential Financial, Inc.
- Santander Bank N.A.
- Signature Bank
- TD Bank, N.A.
- The Northern Trust Company
- The Reinvestment Fund
- TWU Counseling Center
- Wells Fargo
- ZB N.A.

The paths to equity for both Clearinghouse and CDT share certain attributes:

1. Both entities access equity through a for-profit platform: CDT accesses the equity via Real Estate Investment Trusts, and Clearinghouse is a for-profit CDFI.
2. Investors in both entities are able to segment their portfolios by asset class and by census tract thereby enabling the allocation of lending activities to the investor's customer base and/or CRA footprint for the purposes of the investment test.
3. Both entities started with small commitments from each investor.
4. Both entities initiated their equity programs in the private—as opposed to the public—equity markets.
5. Both entities initiated their equity programs paying concessionary (below market) dividend rates relative to the perceived market/credit risk (the rate on the Clearinghouse common is presently at 1%).
6. There are liquidity constraints on the equities issued by both.
7. Investors in both entities enjoy the certainty that the proceeds of their investments are being used expressly to fulfill mission goals in low-come communities and among low-income populations.
8. Investors in neither entity have experienced a loss.

In Stage One, the CDFI Equity Project seeks to duplicate these attributes but with some notable advances:

1. There are 10 or more CDFIs participating, and their assets, while retained on the CDFI balance sheets, are aggregated for the purposes of attracting investment.
2. There is a diversified portfolio by asset class, originator, and servicer, as well as geography.

3. The bank debt and the preferred equity at the Platform level are both market rate—i.e., not concessionary, not subsidized.
4. The liquidity of the preferred equity at the platform level reflects standard investor requirements in the private market.
5. The ultimate objective is to convert the Platform operations and equity funding into the public market.

There are attributes that CDT and Clearinghouse share, however, that the Project cannot—or cannot easily—duplicate at the outset. To a large degree, the investment in their preferred and common equities were predicated on three key factors: (i) they were existing platforms with a track record and retained earnings; (ii) investors in both had direct, discreet, and clear connections to the CDFI; (iii) they both presented a limited number of asset classes in which the investors recognized a defined track record as well as a commitment to the investor's lending footprint.

The following section will show how the Project addresses the fundamental issue of track record.

Participant Portfolio Credit Quality

Unlike the equity issuers Clearinghouse CDFI and Community Development Trust, the CDFI Equity Project is a de novo platform. As noted, the absence of a track record as a functioning platform is one of the major obstacles to issuing equity in the public market. There is a track record, however, and it consists of the performance of the ten participating CDFIs over the past decade. All ten of the CDFIs are rated positively by AERIS, and three of them are rated A or better by Standard & Poors.

The following chart shows key indicators of the quality of the historical loan portfolios.

HISTORICAL LOAN GROWTH AND ASSET QUALITY OF THE AGGREGATE PORTFOLIO

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
$ LOANS OUTSTANDING (000,000s)	$551	$746	$893	$1,033	$1,261	$1,524	$1,746	$1,869	$2,004	$2,108	
Rate of Growth		35.4%	19.7%	15.7%	22.0%	20.9%	14.6%	7.0%	7.3%	5.2%	16.41%
# LOANS OUTSTANDING	3,550	2,757	3,067	2,875	3,224	3,877	4,217	4,540	5,742	7,710	
Rate of Growth		-22.3%	11.2%	-6.3%	12.1%	20.3%	8.8%	7.7%	26.5%	34.3%	10.25%
Average Loan Size	$155,211	$270,599	$291,198	$359,450	$391,172	$393,085	$413,990	$411,568	$349,018	$273,335	$315,341
$ LOAN VOLUME (000,000s)	$256	$304	$342	$423	$440	$606	$536	$429	$473	$544	
Loan Repayment		$207	$195	$283	$212	$343	$314	$307	$338	$441	
% Loan Repayment to Loan Volume		68.0%	57.0%	66.8%	48.2%	56.6%	58.6%	71.4%	71.4%	81.0%	70.0%
$ LOAN CHARGE-OFFS (000,000s)	$1.8	$8.7	$0.9	$3.9	$6.0	$5.5	$6.8	$4.9	$7.3	$4.3	
% To Loans Outstanding	0.32%	1.05%	0.28%	0.45%	0.59%	0.37%	0.40%	0.26%	0.14%	0.12%	0.40%
$ PAST DUE 30+ DAYS (000,000s)	$13.3	$9.3	$12.5	$9.2	$11.9	$21.2	$20.7	$25.9	$21.4	$10.6	
% To Loans Outstanding	2.4%	0.5%	0.6%	0.6%	0.9%	1.1%	1.1%	1.2%	1.1%	0.2%	1.24%
$ LOSS RESERVES (000,000s)	28.2	27.5	28.6	31.5	35.9	38.9	43.4	46.6	56.2	58.5	
% To Loans Outstanding	5.1%	5.1%	4.5%	4.4%	4.3%	4.0%	4.0%	4.1%	4.5%	4.4%	4.44%

Notes:

1. *These numbers are derived from audits of the participating CDFIs. Since the CDFIs have different fiscal years, the numbers represent years 1-10 of fiscal year performance for each individual CDFI rather than the performance of all CDFIs at the end of each 10 calendar years.*
2. *Audit protocols are diverse across the CDFI industry, and some line items are categorized differently among several of the CDFIs.*
3. *Some of the information is drawn from the Surveys and from data deemed confidential by CDFIs providing it.*
4. *Estimates were used for two of the CDFIs in the loan repayment, and number of loan line items.*
5. *One large CDFI started reporting in 2013 instead of 2012. Another participating CDFI started reporting in 2016, and a third started reporting in 2018. There were also some mergers, and a recapitalization is also included in the numbers. These explain some of the trend-line anomalies.*

These are only broad indicators of the portfolios that the CDFIs run, and they do not reflect the specific portfolio composition that the CDFI SPVs will have. Nevertheless, there are several distinct attractions to investors:

1. *Management.* The CDFIs who produced these excellent results are also originating and managing the loans that the investor equity will be helping capitalize in the SPVs.

2. *Size*. In aggregate these 10 CDFIs already show $2 billion in loans outstanding with an annual new loan volume of $500 million.
3. *Rate of Growth*. While the rate of portfolio growth slowed in recent years, it averaged over 15% for the past decade. With the benefit of additional equity, growth will be accelerated. Notably, since the platform has substantive operating leverage built into its cost structure, even single digit growth in assets can accelerate profitability.
4. *Liquidity*. The three largest participants tend to make large loans with maturities that fall in the 3-to-6-year range, which produces an exceptionally liquid portfolio. Should there be a need for liquidity at the Platform level, there is ample cash flow to accommodate from the SPVs in aggregate.
5. *Loan quality*. Charge-offs reached 1% in one of the years, but, on average the charge-off ratio is at 0.4%—an excellent result, and reflective of the kind of care that CDFIs provide to their low-income customer base. For decades the CDFI field has been willing to take on higher risk customers and/or more challenging transactions, with the expectation of working the higher delinquencies down to minimal charge-offs. With these CDFIs, even their 30-day delinquency rate is an exceptionally low 1.24%.
6. *Conservative reserving policies*. Another indication of the strength of CDFI management is the aggregate loss reserves. These average over 3.5x the average 30-day delinquency and over 10x the average charge-off.

With this strong portfolio performance as a foundation, the key question about the de novo platform is: to what extent will the CDFIs use it? This question can be answered in advance of funding by way of participant sale commitments of new as well as existing loans to their SPVs.

Section V. Managing Risk

Equity Risk on the CDFI Equity Platform

With the aggregation of CDFI loan portfolios into a single central portfolio, the Project eliminates three of the major obstacles to equity investor enthusiasm: (i) size; (ii) growth; and (iii) concentration of risk. By structuring the bank debt and preferred interests on market equivalent terms and confining the concessionary terms to the common interests that gain market equivalency over time, the Project eliminates the concern about CDFI reliance on subsidy being perpetual. But the primary remaining risk is credit related. In the absence of data on asset values in liquidation, investors will need assurances that the structure and operation of the Platform will minimize the risk of loss.

The key components of risk for equity investors in the Stage One Source LP platform and its Stage Two successor, the CDFI Equity Fund, face the following risks:

1. No perfected security interest in the lending assets of the SPVs.
2. Junior claim on the assets and cash flows of the SPVs in liquidation.
3. No direct financial claim on the parent CDFI.
4. Since the CDFIs have Delegated Authority, the platform investors have no direct say in the selection of the specific assets capitalized by the platform's purchase of the SPV preferred interests or shares.

The assets being financed are community development loans that are originated by the participating CDFIs and sold at an arms-length basis to their SPVs. The CDFIs are authorized by the Source LP (and later, in Stage Two, the CDFI Equity Fund) to initiate the loan sales to their SPVs at their sole discretion. This delegated authority to the CDFI removes the disincentives of paperwork burden, staff time, process delays, and uncertainty from the lending and funding decisions. It is a system that has proven to work well for the U.S. Small Business Administration (SBA) and reduces costs significantly at both the fund and lender levels. This delegation of credit authority to the CDFI, however, brings with it a potential for moral hazard: the dumping of bad CDFI loans into the SPV portfolio.

These risks are mitigated by the following:

1. *Selection of CDFIs*. All participants are rated highly by AERIS (the rating agency that specializes in evaluating the financial condition management and impact of CDFIs). As the key performance indicators show in the previous section, the asset quality is excellent.
2. *Structure of the SPVs*. As noted above, the SPVs are limited to investing in CDFI loans (no less than 95% of total assets); debt not to exceed 70% of total loans; and common equity not to be less than 10% of total loans.
3. *First loss position*. The CDFI which owns the SPV 100% must keep a minimum of 50% of the value of the SPV preferreds in SPV common equity. This puts the CDFI in a first loss position.
4. *Credit Benchmarks*. The loans that the CDFI sells to its SPV must comply with certain benchmarks established at the beginning of each year by the Platform's Market Advisory Committee—as approved by the General Partner or Managing Board. The benchmarks for size reflect considerations about concentrations by asset type, originator, and location. Benchmarks for credit include term, debt-to-

income, debt-to-equity, interest coverage, and similar indicators. The term benchmarks address concerns such as maximum maturities, principal amortization, and the liquidity of the platform itself.

5. *State-of-the-art predictive loan and loan portfolio monitoring system*. The proposed system is based on the SBA's Office of Credit Risk Management predictive management and lender portal system. It is highly automated and accurate. It generates trends by loan type and by lender, and can be used by the participating CDFIs as well as the Platform for discerning and remedying impending impairment.
6. *Federal Agency presence*. The proposed investment in the Platform by federal agencies that provide resources to the CDFI sector discourages the misuse of the Platform by CDFIs.
7. *Regular Credit Audits.* There is a routine credit audit protocol for the SPV portfolios. It is a comprehensive review of the SPV portfolio which includes onsite presence. An example is shown in *Appendix K. Credit Audit Analytical Format*.
8. *Early Warning and Graduated remedies*. The Platform will take steps to mitigate excessive risk early in a CDFI SPV portfolio.
    - Raise the dividend yield of the SPV's preferred units to reflect the higher risk.
    - Require the 10% equity injected by the CDFI to be in cash.
    - Close the equity window.
    - Convert the preferred interests to subordinated debt.

One of the strategic innovations of the Project is that federal agencies have the opportunity to invest in a form of non-voting (Class C) common interest (in the Stage One LP) or common stock (in the Stage Two CDFI Equity Fund). Agencies that provide programs to low-income constituencies will be invited to participate. The plan recommends that they take roles in specific operational functions: for example, the CDFI Fund could put its CDFI market resources to work in the Market Advisory Committee, and the SBA could share its data capture, predictive modelling and lender portal system with the Platform. The presence of the Agencies would also likely add credibility with investors. Discussions have been initiated with the CDFI Fund and are to be initiated with the SBA. Both capabilities could significantly reduce the cost of operating the Platform. They could also reduce the costs of market definition and risk management for the CDFIs. Discussion with the USDA (Department of Agriculture), HUD (Department of Housing and Urban Development), and the housing finance agencies is also recommended.

Predictive Systems at The Loan, Portfolio and Organizational Levels

Credit Scoring

The chart below was presented by the Ex-Im Bank of the U.S. as part of a presentation to the Office of Management and Budget (OMB) some years ago for the purposes of establishing an innovative export lending program tailored to small businesses. At the time (as now) OMB had to make sure that all new programs were budget neutral—that is, the revenues to the agency had to cover the cost of its losses. This chart was used by the Bank to set the fees for use of the program so that they would cover the total loss rate in the chart—the 2.66%. The proposal was approved, and the program was announced by President Obama in February of 2012.

Credit Score	Loan Volume	Charged-off	Loss Rate	Number of Loans
180-189	$665,787,329	$29,315,563	4.40%	2,124
200-209	$581,054,849	$10,019,915	1.72%	1,805
220-229	$213,636,108	$2,321,998	1.09%	647
TOTAL	$25,895,876,163	$68,996,654	2.66%	8,073

The chart shows the riskiest business loans at the top with scores between 180 and 189 and a 4.40% loss rate, descending to the less risky with scores in the 230-300 range and an average loss rate of 0.33%. The balance among the different credit scores enables the lender to achieve an overall 2.66% loss rate (not bad for a conventional small business lender at the time—by using low-risk loans to subsidize high-risk loans).

The SBA had developed this data over a 15-year period, tracking thousands of loans involving billions of dollars. The scores had been found to be highly accurate in their prediction of default, and the OMB recognized this—as had the SBA's 3,000 plus lenders. The SBA system assigns a score at loan origination based on the data available, and then electronically updates the score over the life of the loan. The updates are based largely on information from D&B, Paydex, and the credit bureaus. The SBA shares the scores with the 3,000 lenders who participate in the SBA guarantee programs. Through its discreet and secure lender portal it also shows the trends in each lender's portfolio as a whole and in what risk percentile the lender occupies on an ongoing basis relative to its peers. In addition to its value as an early warning system for individual loans, it is also an exceptionally helpful portfolio management tool.

Several facets in the SBA credit scoring system can be of importance to the CDFIs (and their investors) in the management of risk:

1. 70% of the credit score of the small business was based on the personal credit scores of the individual owners.
2. The credit scores of the individual owners were driven primarily by their pay histories.
3. Data such as the amount of capital and liquidity (from balance sheets, audits, etc.) had modest influence on the credit score. The primary driver was pay history, as reflected in part by Paydex.
4. Newer technologies that electronically track purchases and/or deposits were becoming even more accurate in identifying the patterns of risk and timing of default.

5. The default rate on senior and subordinated loans was the same—though the values in liquidation were different.

These facets highlight the value of an automated monitoring platform. In addition to accurate predictive capacity, they also reduce the amount of time and expertise needed for traditional credit analysis. The SBA was able to reduce dramatically the staff dedicated to monitoring loans and lenders by instituting their automated system. And by establishing the portals by which the lenders could view their own loan and portfolio condition, the SBA was able to improve portfolio management as well as underwriting and servicing at the lender level across the banking industry.

For the CDFI sector, there is an underlying value to the use of credit scoring as a primary criterion for the extension of credit. Two reasons stand out:

1. Traditional underwriting, which is based on balance sheets, militates against low-income populations and communities by highlighting the low collateral and capital ratios.
2. In focusing on the pay history of a person or business, the credit score highlights the capacity to manage cash. This capacity is present at all levels of income or net worth, and supersedes the disadvantages of low capital, collateral, and earnings. It opens the door wider for capital formation.

Where Credit Scoring Does Not Work

The SBA credit scoring system does not provide definitive data for all loans in the CDFI sector. Predictive accuracy in the small business segment tended to deteriorate at the $750,000 loan level and above. Construction and development loans, as well as medium- and long-term loans for community facilities and commercial real estate, for example, still require specialized underwriting and monitoring. The same holds true for charter schools and health care facilities.

However, as with the credit scoring, the chief focus of the monitor for these larger loans is on the future, and the extent to which the future actions and cash flows can meet the schedules that have been set. An automated system that incorporates the terms and conditions of the larger loans, and adjusts for modifications, automatically flags loans that deviate from the original and/or modified terms and conditions. This enables monitoring staff to perform due diligence in the form of inquiries, desk audits, or credit audits on only those loans that deviate from the prospective schedule at inception as modified.

It is unlikely that the Platform monitoring staff will see much need for this kind of analysis outside of the routine desk and credit audits. That is because the participating CDFI will likely know of trouble at its borrowers before it shows up in the data, and, as noted in the previous section, there is a series of disincentives for housing troubled assets in the SPVs. While there is no prohibition on it, the potential for a higher cost of equity, disapprobation of participating federal agencies, or closure of the equity window will likely minimize the incidence of red flags on large loans at the SPVs.

Monitoring the Portfolio

The aggregation of the many CDFI portfolios into a single large portfolio has an ameliorating effect on the management of risk. With aggregation, management of concentrations is made easier by the reduction in segment

volatility and vulnerability to crisis in one or more segments. Key segments for management of concentrations (as reflected in the previous section on The Aggregate Portfolio of SPV Loans) are:

1. *Asset Class.* The diversification in asset classes on the Platform does not always align with lender or investor preferences. However, it is important to the CDFI sector to go this route: (i) diversification is needed in order to get to scale; (ii) in serving the needs of their communities, many CDFIs engage in a range of lending activities that could benefit from access to the Platform; (iii) from the standpoint of diversified credit risk, it is a strong positive; and (iv) diversification of loans can improve Platform liquidity.
2. *Loan Structure.* The cash flows that derive from a range of loan terms and conditions is evident in the aggregate portfolio of SPV loans: the lower cash flows of the large number of small business loans and longer-term multifamily loans are augmented by the much higher cash flows of the large development and construction loans. This gives the platform more stability as well as liquidity.
3. *Obligor.* Concentrations by a single obligor will be unlikely.
4. *Originator.* The greatest credit risk to the SPV portfolios and to the Platform is with the quality of the loan originators, their servicing capacity, and the management of their SPVs. By having multiple CDFI participants, the Platform significantly reduces the risk that exposure to one originator would present.
5. *Geography.* The multiple CDFI participants enable a national exposure, including rural as well as urban communities and constituencies.
6. *Seasoning of the Loans.* Seasoned loans, existing borrowers, and existing homeowners, businesses, and buildings all tend to carry lower risk than new borrowers, homeowners, etc. The portfolio will be calibrated along these lines as well.
7. *Credit.* As shown in the SPV aggregate portfolio, asset classes can be segmented by risk as defined by such standard financial benchmarks as LTV, interest coverage, equity, credit score, and the like. This enables the Platform to carve out space for the CDFIs to sell loans to their SPVs that are specifically filling gaps created by the conventional market.

As previously noted, the benchmarks in each of these criteria will be proposed by the Market Advisory Committee and approved by the General Partner or Board of Managers of the Platform at the beginning of each year. The Platform will use standard bank portfolio management tools to moderate concentrations of risk in accordance with the benchmarks.

Organizational Assessment

The chief challenge for any kind of assessment of a small lending institution—for example, of $50 million or less—is that standard trend line analysis based on balance sheets is often erratic: the failure of one loan or loss of one staff member can have a material impact on results that skew trends. While regulated depositories have guidelines that moderate these swings, non-depository CDFIs do not. This renders trend line analysis of non-depository CDFIs difficult, and automated flagging worth little if based on the balance sheet. It is quite a different matter if the focus of the analysis is on the loan portfolio as a whole, with each individual loan serving as a reference point. Technology is capable of that, and the predictive capacity can achieve a high level of accuracy.

In 2016, the U.S. Department of Agriculture made $500 million in long-term, low-cost debt available to CDFIs through its Community Relending program. Those applicants with a satisfactory or better rating from AERIS were cleared for consideration, and those without had to be analyzed for the capacity to repay the debt over the

long term. A number of the applicants did not have the ratings from AERIS. The USDA needed a framework that could be used which would treat these applicants equally and consistently in the context of repaying the debt they were applying for over the long term. A program [owned by the Center for Impact Finance at UNH) was developed for the purpose. Instead of forecasting trend lines of key performance indicators, the program forecasts the existing loan portfolios based on the design and pricing of the loans and historical loan volumes by type. The loan portfolios were automatically loaded and forecasted. Key performance indicators were used to populate expenses and financing and to reconcile the financials. The analyses were consistent across the board and the conclusions and recommendations acted upon by the agency.

The Platform will develop its own program for the SPVs based on their portfolios. It will run these with a variety of negative biases in order to stress test the overall Platform portfolio. It will share these portfolio forecasts with the CDFIs via the portal. This will help the CDFIs manage their own portfolios and help facilitate their decisions about the timing and magnitude of raising equity.

The Platform will use AERIS ratings for selection of the participating CDFIs and for regular updates on the mission and financial condition of the parent CDFIs.

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Monitoring Protocols and Staff

The engine of the Platform is the loan and portfolio monitoring staff. They ensure the level of portfolio risk, the conduct of the SPVs, and the stability of the cash flows. The fact that loan underwriting and servicing is done by the CDFIs and that the monitoring is largely automated is a key driver of the increase in profitability and the common dividend as the portfolio assets grow.

As the Platform's automated monitoring and remedial structure is modeled on the system used by the SBA, it can be managed by a very small staff. Staff skill sets are asset/liability management, loan portfolio analysis, and credit analysis. Familiarity with the CDFI industry is essential.

The following is a chart showing the number of investigations they conduct, and the hours involved over the course of the year. The numbers are part of the forecasts.

OPERATING PLATFORM			2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
FTE Hours to Evaluate Data for 1 SPV Portfolio	36	40	800	800	800	800	800	800	800	800	800	800
Number of Evaluations per Year	37		20	20	20	20	20	20	20	20	20	20
FTE Hours to Run 1 SPV Stress Test	38	60	600	600	600	600	600	600	600	600	600	600
Number of Stress Tests per Year	39		10	10	10	10	10	10	10	10	10	10
FTE Hours to Evaluate Consolidated SPV and CDFI	40	80	800	800	800	800	800	800	800	800	800	800
Number of Evaluations per Year	41		10	10	10	10	10	10	10	10	10	10
FTE Hours Credit Audit 50 loans	42	300	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Number of Credit Audits	43		4	4	4	4	4	4	4	4	4	4
Annual Hours per FTE / Total Hours Required	44	1,860	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400
FTE Required	45		1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Total Compensation per Financial Risk Analyst (w/ Inflation)	46	$150,000	$279,677	$285,271	$290,976	$296,796	$302,732	$308,786	$314,962	$321,261	$327,687	$334,240
Finance and Administration	47	$375,000	$382,500	$390,150	$397,953	$405,912	$414,030	$422,311	$430,757	$439,372	$448,160	$457,123
Professional Services	48	$125,000	$127,500	$130,050	$132,651	$135,304	$138,010	$140,770	$143,586	$146,457	$149,387	$152,374
Transactional Services	49	0.25%	$52,582	$108,139	$159,765	$208,292	$226,713	$291,784	$338,869	$385,750	$433,816	$439,004
Other Expenses	50											
Total Operating Expenses	49	$0	$842,259	$913,610	$981,345	$1,046,304	$1,081,486	$1,163,652	$1,228,174	$1,292,841	$1,359,049	$1,382,742
Operating Cost per SPV PRF Portfolio $ Outstanding	50	0.00%	4.00%	2.11%	1.54%	1.26%	1.19%	1.00%	0.91%	0.84%	0.78%	0.79%
Operating Cost per SPV Loan Funded # Outstanding	51	$0	$4,149	$2,039	$1,335	$978	$741	$609	$503	$422	$358	$299
Operating Expense to Total Assets	52		2.79%	1.54%	1.12%	0.91%	0.93%	0.82%	0.73%	0.69%	0.66%	0.66%

The chart above shows the annual target unit volume for 3 distinct forms of desk analyses conducted by the 2-person monitoring staff:

1. Evaluation of the SPV portfolio—line 36. The number of evaluations targets 1 evaluation for each SPV plus 400 hours available for analysis of red flags. These analyses are conducted "at the desk" on the Platform. Portfolio reports are submitted monthly by the SPVs.
2. Stress test of the SPV—line 38. This is also a desk analysis. The stress test involves an automated download of the SPV portfolio and a forecast of the portfolio over 7-10 for the purpose of (i) stress-testing; and (ii) identification of weak loans and concentrations.
3. Evaluation of the Consolidated SPV and CDFI-CDFI relationship—line 40. This desk analysis calls for 1 evaluation per year of the relationship between the CDFI and the SPV in the context of (i) the operating

agreement; (ii) loan selling protocols; (iii) cash flows; and (iv) comparison of lending activity between the SPV and the parent. The evaluation includes a review of the AERIS analysis and updates.

The assigned hours for each are based on actual standalone reviews of CDFIs for each type of analysis. The actual time expended is likely less, however, since each level of desk evaluation serves to inform the next. All of the data is shared with the CDFIs on a discreet basis through their portals.

There is also a credit audit function (*Appendix K*). It is an onsite review initially conducted once every 2.5 years for each participant. This is primarily a desk analysis, but also includes an onsite visit to the CDFI/SPV to review procedures and reconcile any administrative or credit issues. As with the desk analyses, the credit audit declines in frequency over time as the Platform staff become familiar with the protocols and procedures and operating management of the participants. This is a material component of the increasing operating margins of the Platform over time: as the number of participants expands beyond the first ten, the monitoring staff can re-orient their focus and their evaluation activity to the new portfolios, protocols, and procedures.

A chief benefit of this monitoring mechanism is that as the portfolio is seasoned, a performance data base grows. It is this performance data base that generates the hard numbers on loan and portfolio cash flows, delinquencies, losses, and organizational viability that the rating agencies will need to fill the key gaps in the determination of risk—including the value of loans in liquidation (if any).

Graduated Remedies

When risk of impairment or loss appears to be heightening and steps need to be taken to rein it in, the Platform establishes "red flag" indicators that prompt remedial action. This reliance on indicators of heightened risk is common to lenders in the form of financial covenants based on the balance sheet and operating statements. There are a number of additional risk indicators that are geared more to portfolio dynamics and cash flows. Properly structured and communicated red flags are extremely helpful to both the provider of funds and the recipient: they provide clarity to both parties in a transaction as to the point at which changes must be made.

Below is an example of the "red flags" drawn from a past remedial system at the SBA for lenders under its SBA 7a program:

"P" - Portfolio Performance	
5 year cumulative net yield	cumulative net cash flow divided by the SBA guaranteed portion
12 month default rate	default amount over last 12 months divided by the average balance plus the default amount over 12 months
5 year default rate	default amount over the last 5 years divided by the average balance plus the default amount over 5 years
"A" - Asset Management	
Stressed Rate	Past due 31-59 days, defferred, plus delinquent (60 days or more) divided by balance
Early Problem Loan Rate	Balance for young loans that have been deferred, delinquent, purchased, or liquidated within 18 months of origination
High Risk Origination Rate	Approval amount for young loans (36 mos or <) that are high risk: SBPS credit score of 160 or less divided by Approval amount for young loans
"R" - Regulatory Compliance	
Loans in default status > 3 years	Balance of loans in default status over 3 years divided by all loans in default
24 Month Repair/Denial Rate	Last 24 months in repair, denial or purchase divided by SBA purchase amount
1502 Reporting Rate	# of reporting loans divided by total loans in lender's portfolio
"Ri" - Risk Management	Overall institution risk and a Lender's use of an effective governance model to identify, understand, and mitigate risk exposure in its 7(a) portfolio.
FDIC Total Risk Based Capital	FDIC benchmarks
Non-Performing Asset Ratio	Nonperforming assets plus loans 90 or more days past due to equity and reserves
Lender Purchase Rating	Lender rating based on forecasted puchases for the next 12 months
"S" - Special Items	Additional key metrics or items that are not included in the other components but may pose risk to SBA or present program integrity concerns
Average SBPS credit score	Average small business portfolio score (SBPS) weighted by loan balance
Recovery Rate last 5 years	Recovery rate (after SBA purchase) for defaulted loans charged off or paid in full over 5 years divided by cumulative default amount for loans charged off or paid in full over last 5 years
No Regulator/Regulatory Action	The occurrence of a public corrective action or absence of a prudential regulator

These indicators are focused just on the loans that the lenders originate with the SBA 7a guarantee, but they are also (appropriately) synchronized with the regulatory regimen for lenders.

Of particular value for the CDFI field are the 12-month default rate, the Stressed Rate, Early Problem Loan Rate, High Risk Origination Rate, Loans in Default Status >3 years, Reporting Rate, and Average credit score. These can all be applied to the loans that are purchased from the CDFIs by their SPVs. The Regulatory Compliance ratios can be replaced by the requirement that the SPV is in compliance with following guidelines: (i) at least 95% of total assets invested in loan assets purchased from the CDFI; (ii) SPV preferred represents no more than 20% of loans; and (iii) the CDFI maintains at least 50% of the book value of the SPV preferred equity in common equity. That all loans are bought and sold at face value in an arms-length transaction is also fundamental.

Of course, the bulk of the lenders at the SBA are regulated depositories. The CDFI loan funds are not. Moreover, they tend to present a more diverse and idiosyncratic balance sheet and set of lending protocols and procedures than those found in the banking system.

Below is a system of system of graduated remedies proposed for independent export insurance brokers and lenders at the Export Bank of the U.S. It is a complete system that sets the benchmarks (Section I); the type, timing, and content of the review based on the broker's benchmarks (Section II); steps to be taken in the event of adverse findings or events (Section III); and the actual remedial steps to take based on the response (Section IV). Items that may be particularly applicable to SPVs (for domestic lending) are highlighted in yellow:

I. SEGMENTATION OF A SMALL NON-DEPOSITORY LENDER							
Current Status							
Years	Years undewriting product line	< 3	-1	4 to 10	2	> 10	3
Revenues	Total revenues	< $1 mm	0	$1-5mm	1	> 5mm	2
Net Worth	Net Assets	< $200m	-1	$200m-2mm	2	> 2mm	3
Leverage	Total Liabilities to Net Assets	> 8	0	8 to 4	1	< 4	2
Efficiency	Operating Expenses to total Assets	> 10%	-1	10% to 6%	2	< 6%	3
Cost of Funds	Interest Expense to total Assets	> LIBOR + 3	-1	LIBOR +1-3	2	< LIBOR +1	3
Delinquencies	Defaulted loans to total loans	> 8%	-1	8%-4%	2	< 4%	3
Credit Losses	Credit losses to total loans	> 5%	0	5%-3%	1	< 3%	2
Recoveries	Recovery to defaulted principal	< 10%	0	10% to 20%	1	> 20%	2
Liquidity	Loan Repayments to New Loans Made	< 25%	-1	25%-66%	2	< 66%	3
	Total Loans o/s to Loan Repayments	> 4	0	4 To 2	1	< 2	2
Early Warnings							
Growth	Number of deals this year vs previous year	> 150%	-1	150-120%	2	< 120%	3
Deal Size	Largest deal to last year's average deal size	> 150%	0	150-120%	1	< 120%	2
Deal Flow	Number of deals Per Year	< 3	0	3 to 10	1	> 10	2
Staffing	Number of total deals to total staff	> 100	-1	100 to 50	2	< 50	3
Policy Changes	Urgent and/or repeated requests for changes in poli	> 10%	-1	10 to 5%	2	< 5%	3
		of volume		of volume		of volume	
Claims Experience							
	Claims due to poor underwriting	>120% ofAverage	-2	80-120% of Avg	2	< 80% of Avg	8
	Claims due to fraud, carelessness	3	-5	2	5	0	15
Totals for Categorizing Non-Depository Small Lenders			**-16**		**32**		**64**
3 -5 Yr Trend (Comparative) ROE							
Asset Leverage	Total Assets over Net Assets						
Return on Sales	Net Income to Total Revenues						
Asset Turnover	Total Revenues divided by Total Assets						
ROE	Asset Leverage X ROS X Asset Turnover						

II. LEVEL OF AGENCY MONITORING BASED ON LENDER RISK ASSESSMENT				
Protocols				
		< 16	**16 to 32**	**> 32**
Standard Review	Review of lending activity: volume	Qrtr	Annual	Annual
	Quality of lending performance	Qrtr	Annual	Annual
	Review Audit/Taxes of Lender	Annual	Two Years	Three Years
	Borrower credit scores and data	100%	100%	100%
	Credit Portfolio Management Review	100%	100%	100%
Credit Audit	Performed by Agency	Annual	Three Years	0
	Borrower Samples	10%	2%	0%
	Years for lender trend line analysis	5	3	3
Field Audit	Performed by Agency:	Annual	Three Years	Adverse Event
	Analysis of Transaction Documents	10%	5%	5%
	Due diligence on buyers, shipments, UCC filings	10%	5%	5%

Procedures	
Credit PF Mgmt	Segment lender's exposure by type and concentration of risk: type of borrowers, size, location, credit history, NAICs, country of destination, etc.
	Capture trends in lending by portfolio segment
	Forecast activity and level of risk to the portfolio by segment
	Compare with activity of other lenders
Field Audit	Review files, documents (Purchase Order, Invoice, Bill of Lading, Payment Instructions) for accuracy and completeness on designated sample
	Perform due diligence on vendors, buyers, rshipments, receivables, UCC filings
	Evaluate Lender's processes for origination, underwriting, billing, collections, maintaining records, litigation, management depth, finance experience, staff, turnover, governance, IT, reporting
	Reconcile lending activity reports with audit and GL
Credit Audit	Review lender's credit files on designated sample of borrowers: financial data, financial status, credit bureau, credit score, liabilities, pledged collateral, receivables aging, inventory levels, major cash flow items and changes in product line, destinations and/or patterns of shipping
	Analyze lender's performance over the most recent 3-5 year period to include: product summary, evaluation of changes in product line, ROE analysis, cash flow analysis, evaluation of credit lines, collateral, capital, liquidity, asset quality and role and nature of equity holders.

III. EVALUATION TRIGGERS AND REMEDIES

Adverse Events		Agency Response		
	Lender Rating	**< 16**	**16 to 32**	**> 32**
20% Change	**In Lender financial status:**			
	Net Assets (line 3)			
	Efficiency (line 5)	Accelerate Credit Audit	Accelerate Standard Review	Accelerate Standard Review
	Cost of Funds (line 6)			
	Delinquency (line 7)			
	Liquidity (line 10)			
	Rate of Growth (line 11)			
	Staffing (line 14)			
	Policy Changes (line 15)			
Fail Credit Audit or Review	Negatives in Section 1 (above) or other items found during Review	Accelerate Field Audit	Accelerate Credit Audit	Accelerate Credit Audit
20% Change	Number of Lender Claims due to excessive Credit Risk (line 16)	Accelerate Field Audit	Accelerate Credit Audit	Accelerate Credit Audit
20% Change	Number of Lender Claims due to Fraud (line 17)	Cease New Lending Pending Field Audit	Cease New Lending Pending Field Audit	Cease New Lending Pending Field Audit

IV. GRADUATED REMEDIES IN THE EVENT OF UNSATISFACTORY REVIEWS/AUDITS

Credit Limits	Reduce the size of the credit limits for the errant borrowers of the lender
	Restrict the credit scores of participating exporters
	Reduce the size of the credit limits for the lender
	Limit the countries of destination
Volume	Limit number of deals
	Limit deal size
Delegated Authority	Cease delegated authority
Pricing	Charge lender higher fees for use of the program
Terminate participation	For the earlier of 6 months or cure of problems with the program

The main challenge with this system is its complexity. Although Platform staff can understand it perfectly well, the number of benchmarks, forms of review, and steps to be taken will confuse and burden the participants. For a graduated system of remedies, there must be simplicity and clarity on both sides of the relationship.

In setting up its system, the Platform must first take into consideration the specific lending histories and asset classes of its CDFI participants. Then it should identify the few key red flags that best address the likely areas of heightened risk and build the prompts around those. The restrictions on the structure of the SPV (95% assets in loans, SPV preferreds not to exceed 20% of loans, face value of the purchases, etc.) are to be incorporated.

The remedies should be sequential based on the perceived level of risk of each red flag event to the Platform portfolio. The remedies should be assigned accordingly, in ascending order of impact:

1. Raising the dividend yield of the SPV's preferred units to reflect the higher risk.
2. Requiring the 10% equity injected by the CDFI to be in cash request.
3. Closing of the equity window.
4. Conversion of the preferred interests to debt.

Section VI. Benefits to the Investors and the CDFIs

Breakthroughs for the CDFI Sector

The chief breakthroughs of this proposal for the CDFI sector are:

1. *Aggregation.* Over the first 10 years almost $2 billion dollars of CDFI loans are combined into a single portfolio. The portfolio is diversified by rate, tenor, asset class, originator, servicer, and location. Ownership, management, and servicing of the loans remain on the balance sheet of the CDFI that originated them.
2. *Economies of Scale.* As a result of the aggregation, a CDFI asset portfolio achieves sufficient size to enter the capital markets. The scale provides growth and operating leverage which enables the CDFI portfolio to substantively reduce the cost of delivering credit per loan over time.
3. *Access to Preferred Equity.* Through the platform, CDFIs get access to true equity from private investors that is tailored to their growth and capital structures.
4. *Flexible Use of Proceeds.* The cash proceeds of the equity are upstreamed to the parent CDFIs and may be used for any organizational purpose. It is entirely unrestricted.
5. *Independence.* The Platform handles each participating CDFI independently of the other participating CDFIs: there are no joint and several obligations and the cost of the equity reflects each individual CDFI's portfolio performance.
6. *Collateral.* There is no secured claim on the assets of the CDFIs or the for-profit LLC subsidiaries of the CDFIs.
7. *Delegated Authority: Financing on Demand.* The Platform operates on a highly automated portfolio management system modeled on the SBA's Office of Credit Risk Management system. Authority to sell loans to the CDFI LLCs and to issue preferred units that will be purchased by the Platform is delegated to the CDFI. There is no time-consuming approval process.
8. *Access on a Flow Basis.* The preferred equity is available as needed for as long as the intermediary Platform is operating either in the private market as the Source LP or in the public market as the CDFI Equity Fund. No application or approval for funding is needed.
9. *Market Influence.* The intermediary platform provides a buffer between conventional investor pressures and the CDFI mission and operations. It does this by presenting its own balance sheet as the obligor and by mediating the pricing and terms of the financing.
10. *Benchmarks.* The CDFI sector can guide investor funding into areas of community need via the Market Advisory Committee, chaired by a federal agency. The federal agency can also be an investor.
11. *Equity Ratings.* The reporting protocols established by the Platform enable the collection of the data necessary to analyze and evaluate CDFI loan portfolios and preferred interests for the purposes of obtaining an equity rating. The equity rating is a predicate for obtaining unsubsidized capital from the public markets.
12. *Risk/Return.* Effectively, the Project drives the CDFI performance data to the point where lenders and investors see the true risk/return on CDFI assets and provide the lower rates not in the form of subsidy but rather in the form of a proper return for the risk.
13. *Direct Access.* Once the reporting protocols and the resulting trend line analyses and asset valuations are in place, large CDFIs have the data needed to go to the public equity markets directly.
14. *Newer and Smaller CDFIs.* The Source LP—and its successor, the CDFI Equity Fund—have the incentive and the portfolio size to allocate portfolio funding to newer and smaller CDFIs across the CDFI sector.

Benefits for the Investor

The wise investor is always looking for an arbitrage opportunity—that is, one where the perceived risk is much greater than the actual risk, and as a result, the yield is much higher than it should be. In such circumstances, the investor makes a better return as the perception is disproven than with an investment that is accurately priced for risk. There are reasons why the CDFI sector fits the definition of an arbitrage opportunity: if it could access the market, the cost of equity would be inappropriately high because: (i) the market perceives lending in low-income communities to be higher risk; (ii) the market is unfamiliar with non-profit lenders; (iii) the credit comes in small and fragmented portions; and (iv) there is inadequate data on loan portfolio performance. Because all of these can be remedied, an investor in a properly structured capital market instrument for the sector will essentially be arbitraging the market and making a better return over time. There are additional breakthrough benefits to the investor:

1. *New clients.* With over 1,300 certified CDFIs and holding over $220 billion ($15 billion in loan funds) as of 2020, it represents a large untapped client base.
2. *Stability.* The credit performance is generally stable, growth is moderate, and the bias towards counter-cyclicality: the counter-cyclicality is driven by the acceleration of need during down-cycles.
3. *Diversification.* The portfolio risk is well diversified by (i) geography; (ii) asset class; (iii) originator; (iv) servicer; (v) asset class; and (vi) pricing and term.
4. *Concentration.* The Source LP Platform will have at least 10 participants with the loans being capitalized numbering in the thousands. The successor CDFI Equity Fund will expand the number of participants as well as the number capitalized loans.
5. *ESG.* The CDFI mission unquestionably fits the objectives of ESG considerations as well as promoting CRA objectives. It also fits the financial investment objectives of mission-oriented investors and funds.
6. *Public/Private Partnership.* The partnership with the federal agencies aligns the investment with data, best practices, and moral suasion as well as the potential for coordinated funding.
7. *Transparency.* Consistent, detailed, and timely reporting on the performance of the loans, the loan portfolios, and the portfolio management capabilities of the Source LP/CDFI Equity Fund minimize the likelihood of surprises or confusion over the operations.
8. *Yield and return on the preferred interests and preferred stock.* For institutional investors, banks, and foundations, this provides a market rate yield on an instrument that helps capitalize and expand activities they are already committed to.
9. *Yield and return on the common units and common stock.* For the institutional investors, banks, and foundations, this adds an additional form of capitalization of the CDFI industry, which is more flexible and less paper-intensive, and which generates a positive return. Over time this return can grow to market levels, which reduces the need for subsidy, and brings in a much wider range of investors to assist them in capitalizing the CDFI industry.

One of the most compelling features for the investor is that there is no likelihood of obsolescence for CDFIs. Contrary to the overall trend towards automating contact with customers, CDFIs base their operations around active personal contact. The personal contact makes it more expensive to originate and service for CDFIs than for conventional financial institutions, but the expense is defrayed by their access to grants and other philanthropic instruments. This equity program helps increase funds available for the personal contact by sourcing external capital for the loans.

Appendix A

Obstacles to the Capital Markets

The fact that some CDFIs at the upper end of the size scale have already obtained debt and equity from the capital markets indicates that there is no resistance at the investor level to the CDFI mission or community development risk. This crucial development means that a CDFI's inability to access the capital markets is now a function of strictly technical issues. Here are the five primary technical issues that impede access for CDFIs:

1. Size

   Players in the capital markets wish to be well compensated for their work, and they are. They work on the theory that it takes the same amount of work to do a $5 million transaction as it does to do a $500 million transaction—but that one makes a lot more with the $500 million. The debt market tends to see $100 million as a minimum. In certain sectors, such as early-stage venture capital, equity investors will look at a $5 or $10 million commitment. But they are looking for exceptional returns, which means these small commitments are generally made only in industries that have dramatic near-term earnings potential. By choice and by mission, CDFIs would not qualify for venture capital type equity—the investors' expected returns would tyrannize the pricing of the product and the delivery. If a CDFI were to pursue a simple standard form of equity (including a preferred interests), a reasonable assumption for the minimum size would be in the $50 million range. Both numbers preclude all but the largest CDFIs from accessing long-term debt or equity in the capital markets.

2. Grant Revenue

   There are two features of the reliance on grant funding that make underwriting CDFI risk exceptionally difficult even for the most advanced financial analysts. They reflect the two original challenges we noted above:

   a. *The unpredictability of obtaining grants*, which is a combination of grantor program expansion, contraction or change in terms, and the ability of the organization to compete successfully for the fundings that are made available.
   b. *The distinction between Restricted and Unrestricted*, is virtually impossible to track without reading the terms and conditions of each individual grant, and obtaining confirmation of the composition of each debit or credit to the temporarily restricted net asset accounts.

   If a CDFI's self-sufficiency ratio is 70%, the financial analyst sees the fund of 30% of the (overhead operating expenses absorbed by operating or earned revenue) organization's revenue as being volatile, and hence subject to scrutiny. The cost of the added scrutiny, however, may not produce a solid predictive conclusion relative to the amount of grants the CDFI can obtain going forward nor, the extent to which those grants are unrestricted and therefore available to absorb operating expenses, credit losses, interest expense and debt requirements. This is a major problem for the market.

3. Management of Operating Costs

   For-profit financial entities use productivity benchmarks to determine whether they can or will provide a service or product. Financial analysts use these benchmarks to evaluate such items as quality and efficiency. At present, there are few, if any, benchmarks in the CDFI sector for evaluating productivity in the delivery of loans or of services to their communities or constituencies. A microloan might cost $500 or $5,000 in staff time to deliver. The wide divergence in costs does not mean that there aren't shared experiences with products

and services that can be used to establish broad standards—or benchmarks for the CDFI sector. However, that could take considerable time. Moreover, CDFIs perform a number of lending functions in a "hands-on" manner that are, therefore, more expensive than those performed by conventional lenders, likely resulting in a negative comparison relative to efficiency. Nevertheless, the absence of these standards prevents the financial analyst from knowing how much in operating expense is needed to generate loans and loan revenue; essentially it is hard to determine how much gas is needed to make the car run over the long haul. The combination of volatile grant revenue and uncertain operating expenses renders the conclusions of the financial analyst speculative at best. While this may not be a problem for raising short term debt or other commitments, it impedes acquisition of long-term debt or equity.

4. Asset/Liability Management
   To fulfill their mission, CDFIs have adopted the "buy and hold" policies of the traditional community lender. There is a commitment to "match-funding" the loan by matching the maturity of the asset with the liability that funds it; holding the loan until maturity; targeting an interest rate that is "fair;" and seeking funding for the loan that can be covered by the fair interest rate charged on the loan. This approach also encourages the maintenance of high levels of low-yielding cash and investments for the purpose of funding loans, discourages short-term borrowing or "table funding" of new loans, and tends away from loan participations or loan sales. Traditional policies like these are *extraordinarily* expensive. There is a body of asset/liability methodologies that can dramatically drive down the cost of traditional policies like these, including such concepts as "the blended cost of capital," duration, and the full range of asset securitization. Unfortunately, however, the cost of staffing the financial skillsets that can implement and manage these strategies prudently is high, and most CDFIs are not of sufficient size to defray the cost.

5. Financial Reporting
   The debt and equity segments of the capital markets require precision in financial reporting. Financial analysts at banks, the rating agencies and investment banks, hedge funds, etc. all use cash flow as the primary basis for trend line analysis and forecasting. They also use a range of unit cost analysis and benchmarking techniques to arrive at the forecasts for such things as viability, revenue growth, profitability, debt capacity and dividend capacity. The CDFI sector presents a challenge to these disciplines for a variety of reasons, but one of the major reasons is cost. The high cost of auditors (but typically lower fees paid by CDFIs to the largest auditors compared to corporate clients which affects the availability of auditors) who are qualified in financial accounting and who know the industry combined with the high cost of detailed reporting and analytical systems, precludes many organizations from getting and presenting the financial data they deserve. Areas in which shortcomings are often found include the following:

   a. *Audit inconsistencies* are evident in such areas as consolidation of owned assets, accounting for pass-throughs like New Market Tax Credits, and charts of accounts. This tends to stem from the use of low-cost accounting firms that do not specialize in CDFI accounting, or understand how CDFIs operate.
   b. *Absence of accounting for key line items* is sector-wide, including such line items as loan volume, loan principal repayment, investment income (versus loan income), fee income, servicing fees, and projected loan maturities. Data on unit volume are generally absent, and staff allocation by function (when it is provided) is often not defined in a way that tracks back to unit volume.

c. *Inadequate focus on the financial strengths of the CDFI.* The financial strengths of the CDFI include their generally high balance sheet capitalization, but what distinguishes the best performing CDFIs is their management of credit risk, their management of cash flow, their self-sufficiency ratio, and their consistency in staffing, volume, and overall financial performance. These are the features that need to be presented first, foremost and convincingly to the financial analysts when approaching the capital markets. Currently the chief emphasis in financial presentations is on the structure of the CDFI balance sheet. This puts CDFIs at a disadvantage for a number of reasons, including:

    i. The balance sheet footings of small CDFIs can change significantly on a percentage basis from one month, quarter or year to the next, giving the financial analyst who performs trend line analysis and forecasting the impression of high volatility. While there may be very little volatility in fact, the appearance of it prompts further scrutiny—and cost.
    ii. The prioritization of capital as the prime indicator of financial strength is a positive given the high typically high balance sheet capitalization. On the other hand, it is the stated mission of CDFIs to make loans that would otherwise not be made by conventional lenders. The logical conclusion for the financial analyst is that, when sold in the market, CDFI loans will not yield 100 cents on the dollar (many of them being made, as it were, on a "below-market-rate" basis) to reserve against potential losses. Thus, while the CDFI may appear well capitalized, for the financial analyst, the capital will likely be viewed as overstated when taking into account credit loss exposure, especially among less experienced lenders.
    iii. The typically high current ratios are generally viewed as a positive sign of organizational liquidity, but it can be an indication to analysts of the organization's inability to manage cash efficiently or less on-balance sheet lending, resulting in a reduction of earnings power.
    iv. The inability to generate properly representative cash flows over the years compromises the evaluation of management decision-making, asset quality, and the calculations of, among other things, staff productivity, debt capacity and earnings growth.

d. *Internal Reporting* of operations and loan or real estate portfolio performance is inconsistent across the sector, and it is not uncommon that internal management reports do not reconcile with the audits.

As noted, these five technical challenges are not equally present across the CDFI sector. Large, high volume CDFIs have already addressed these challenges, and have gained access to patient long term debt and equity already. They have already reached the recognition that the community development assets they generate can be financed, in large part, by the conventional sector, and that grant funds can (or should) be used only to fill any funding gap that may occur. They are already effectively allocating the declining funds of grant funding to that part of their operations which are hardest to fund.

Arriving at this juncture, however, has taken considerable time and effort. Acquiring market-compatible financial skills and systems is expensive, and getting to scale takes years. For the rest of the CDFI field, there may not be the money or the time to follow their path. The need for patient long term capital is expanding, and the window of opportunity for some in the industry may be closing or at least consistently available across economic cycles and environments.

On the positive side, the fact that several of the large CDFIs have gained access to the capital markets is a benefit to the sector as a whole. These large CDFIs have not only incorporated capital market financial management and reporting protocols into their operations, but they have also spent considerable time educating key players in the marketplace on the nature of the CDFI sector. Lenders and investors are increasingly attentive to mission-based investments, and those CDFIs who can show consistent track records with low risk are likely to be welcomed.

The question is: how does the second tier of CDFIs (in terms of scale) leapfrog the long journey that the first tier had to traverse?

Appendix B

Operating Agreement

[____], LLC

This AMENDED AND RESTATED OPERATING AGREEMENT (this "**Agreement**") of [___], LLC is made and entered into, effective as of [•] (the "**Effective Date**"), by the party listed on the signature page hereof (the "**Member**"). Unless otherwise provided in this Agreement, capitalized terms used in this Agreement shall have the meanings given to them in Article 10.

RECITALS

WHEREAS, on [•], the Certificate of Formation was filed with the Secretary of State of the State of Delaware, thereby forming the Company as a limited liability company in accordance with the act.

WHEREAS, [___]. initially entered into a Limited Liability Company Agreement of the Company, dated as of [•] (the "**Original Operating Agreement**") to establish the economic and other rights of the Member and the procedures for the governance and operation of the Company;

WHEREAS, the Member desires to amend and restate the Original Operating Agreement in its entirety as set forth herein;

WHEREAS, this Agreement is being entered into by (a) the Company and (b) the Member, to provide for, among other things, the governance of the Company and the rights and obligations of the Member; and

WHEREAS, this Agreement shall completely amend, restate, and replace the Original Operating Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other valuable considerations, the receipt and adequacy of which are hereby acknowledged, the Member and the Company hereby agree as follows:

ORGANIZATION

Formation and Tax Classification. The Company was formed as a limited liability company under and pursuant to the Act by filing a Certificate of Formation with the Secretary of State of the State of Delaware. The Member represents and warrants that such Member is duly authorized to join in this Agreement and that the person executing this Agreement on its behalf is duly authorized to do so. The Member intends that the Company will be classified as a partnership for federal, state, and local income and franchise tax purposes and the Member and the Company will file all tax returns and will otherwise take all tax and financial reporting positions in a manner consistent with such treatment. The Member intends that the Company will not be a partnership (including, without limitation, a limited partnership) for any other purpose. Except as otherwise required by law, no Member or Manager shall be liable for the debts, obligations or liabilities of the Company, including under a judgment decree or order of a court.

Company Name. The name of the Company is [___], LLC. The business of the Company will be conducted under such name or such other names as determined by the Manager.

Purposes. The Company has been organized to engage in any lawful act or activity for which a Delaware limited liability company may be formed.

Principal Place of Business. The initial principal place of business of the Company is located at [___]. The principal place of business of the Company may be relocated from time to time by determination of the Manager. The Company may maintain offices at such other place or places as the Manager deems advisable.

Registered Agent and Registered Office. The name and address of the Company's registered agent for service of process on the Company in the State of Delaware will be [___]. The Manager may change, at any time and from time to time, such registered agent. The Company's registered office in the State of Delaware will be the address of the Company's registered agent for service of process. The address of such agent within the State of Delaware is: [___]. The Manager may change, at any time and from time to time, such registered office.

Term. The term of the Company commenced upon the filing of its Certificate of Formation with the Delaware Secretary of State on [•] in accordance with the Act and will continue in existence for perpetuity, unless dissolved or terminated in accordance with either the provisions of this Agreement or the Act.

Section 1.7 **Names and Addresses of the Member and the Manager**. The name and address of the Member is set forth on Exhibit A. The name and address of the Manager is set forth on Exhibit B. A Member or Manager may change its address upon notice thereof to the Company.

CAPITAL CONTRIBUTIONS

Capital Contributions. The Member has made, or will be deemed to have made, the Capital Contributions as set forth on the Register attached hereto as Exhibit A. Except as otherwise agreed in writing between the Company and the Member, the Member will not be required to make any additional Capital Contributions to the Company.

Other Matters.

Return of Capital. The Member shall be entitled to the return of its Capital Contribution upon the terms and conditions contained in this Agreement.

Interest on Capital Contribution. Except as otherwise provided in this Agreement, the Member will not receive any interest payment, salary or draw with respect to its Capital Contribution or otherwise solely in its capacity as a Member.

No Personal Liability. The Member, in its capacity as such, shall not be liable for the debts, liabilities, contracts or any other obligations of the Company.

MANAGEMENT AND CONTROL OF THE COMPANY

Management by the Manager.

To the maximum extent permitted by applicable law (including the Act), the business and affairs of the Company will be managed, and all powers will be exercised, by or under the direction of the managers, as listed on Exhibit B (each a "**Manager**", and together the "**Managers**"); *provided*, that the Company may have any number of Managers, as determined by the Member.

The initial Managers shall be [___] and [___].

To the extent the Member has appointed more than one Manager, all decisions, consents, and actions taken by the Managers shall require unanimous consent of the Managers; *provided*, that the Managers may act without unanimous consent subject to the Member's written consent.

Except as specifically set forth in this Agreement, the Member hereby delegate all power and authority to manage the business and affairs of the Company to the Managers. The Managers may delegate the management of the day-to-day operation of the business of the Company to such officers as the Managers determine appropriate; *provided*, that the business and affairs of the Company will be managed, and all powers will be exercised under the ultimate direction of the Managers.

Resignation. Any Manager may resign at any time by giving written notice to the Member. The resignation of a Manager will take effect upon receipt of notice thereof or at such later time as will be specified in such notice; unless otherwise specified therein, the acceptance of such resignation will not be necessary to make it effective.

Removal. Any Manager may be removed at any time, with or without cause, by the Member.

Vacancy. So long as at least one Manager remains, the Member is not required to appoint a new Manager to fill a vacancy. If there is not at least one remaining Manager, any vacancy occurring for any reason in the position of a Manager shall be filled by the Member, to the extent deemed necessary by the Member.

Meetings of Manager. Nothing in this Agreement is intended to require the Managers to hold meetings of the Managers with or without the attendance of the Member. It is the intent of the Member that meetings of or with the Manager are not required.

Powers of Manager.

Powers of the Manager. Subject to 0, the Manager shall have all necessary powers to manage and carry out the purposes, business, property, and affairs of the Company, including, without limitation, the power to exercise on behalf and in the name of the Company all of the powers described in the Act and the right, power and authority from time to time to do the following:

To open bank and other financial accounts and borrow money in the name and on behalf of the Company, and to secure any such loans by a mortgage, pledge or other encumbrance upon any assets of the Company;

To cause to be paid all amounts due and payable by the Company to any person or entity,

To establish and maintain one or more bank accounts or other financial accounts in the name of the Company;

To employ such agents, employees, Managers, accountants, attorneys, consultants and other persons necessary or appropriate to carry out the business and affairs of the Company, and to pay to such persons such fees, expenses, salaries, wages and other compensation as he shall in his sole discretion determine;

To pay, extend, renew, modify, adjust, subject to arbitration, prosecute, defend or compromise, upon such terms as he may determine and upon such evidence as he may deem sufficient, any obligation, suit, liability, cause of action or claim, including taxes, either in favor of or against the Company;

To pay any and all fees and to make any and all expenditures which he deems necessary or appropriate in connection with the organization of the Company, the management of the affairs of the Company and the carrying out of his obligations and responsibilities under this Agreement;

To the extent that funds of the Company are, in the Manager's judgment, not immediately required for the conduct of the Company's business, temporarily to deposit the excess funds in such bank account or accounts, or invest such funds as the Manager shall deem appropriate including in accordance with any loan agreement entered into by the Company;

To acquire, prosecute, maintain, protect and defend or cause to be protected and defended all patents, patent rights, trade names, trademarks, copyrights and service marks, all applications with respect thereto and all proprietary information which may be held by the Company;

To enter into, execute, acknowledge and deliver any and all contracts, agreements or other instruments necessary or appropriate to carry on the business of the Company as set forth herein;

To cause to be paid any and all taxes, charges and assessments that may be levied, assessed or imposed upon any of the assets of the Company, unless the same are contested by the Company; and

To make all elections and decisions of a tax and accounting nature required or permitted on behalf of the Company.

Limitations on Power of Manager. Notwithstanding any other provisions of this Agreement, the Manager shall not have any authority hereunder to cause the Company to engage in the following transactions without first obtaining the written consent of the Member:

The sale, exchange or other disposition of all, or substantially all, of the Company's assets occurring as part of a single transaction or plan, or in multiple transactions over a twelve (12) month period;

The merger or consolidation of the Company;

Effecting a liquidation, dissolution or winding up of the Company; and

Any amendment of the Certificate of Formation of the Company or this Agreement.

Performance of Duties; Liability of Manager; Fiduciary Standard. The Manager shall not be liable to the Company or to the Member for any loss or damage sustained by the Company or the Member, unless the loss or damage shall have been the result of fraud, deceit, gross negligence, reckless or intentional misconduct, or a knowing violation of law by the Manager. The Manager shall perform its managerial duties in good faith, in a manner it reasonably believes to be in the best interests of the Company and the Member, and with such care as an ordinarily prudent person in a like position would use under similar circumstances. Provided the Manager perform the duties of Manager in compliance with this 0, the Manager shall not have any liability by reason of being or having been a Manager of the Company.

Devotion of Time. The Manager is not obligated to devote all of its time or business efforts to the affairs of the Company. The Manager shall devote whatever time, effort, and skill as it deems appropriate for the operation of the Company.

Limited Liability. The Manager shall not be personally liable under any judgment of a court, or in any other manner, for any debt, obligation, or liability of the Company, whether that liability or obligation arises in contract, tort, or otherwise, solely by reason of being a Manager.

OFFICERS

Appointment of Officers. The Manager may appoint officers of the Company which may include, but will not be limited to: (a) Chief Executive Officer; (b) President; (c) one or more Executive Vice Presidents or Vice Presidents; (d) Secretary; and (e) Chief Financial Officer or Treasurer. The Manager may delegate day-to-day management responsibilities to any such officers.

Tenure and Duties of Officers. The officers of the Company will hold office at the pleasure of the Manager and until such officer's successor will have been duly elected and qualified, unless sooner removed. The officers need not be a Member and may be removed and replaced, and vacancies may be filled, at any time by the Manager. Unless otherwise provided herein, each officer shall have the powers, duties, and responsibilities as determined by the Manager.

Signing Authority of Officers. The officers of the Company are authorized to sign and execute in the name and on behalf of the Company all applications, contracts, leases and other deeds and documents or instruments in writing of whatsoever nature that may be required in the ordinary course of business of the Company and that may be necessary to secure for operation of the affairs, governmental permits and licenses for, and incidental to, the lawful operations of the business of the Company, and to do such acts and things as such officers deem necessary or advisable to fulfill such legal requirements as are applicable to the Company and its business.

Devotion of Time. The officers of the Company are not obligated to devote all of their time or business efforts to the affairs of the Company. The officers of the Company shall devote whatever time, effort, and skill as they deem appropriate for the operation of the Company.

Limited Liability. The officers of the Company shall not be personally liable under any judgment of a court, or in any other manner, for any debt, obligation, or liability of the Company, whether that liability or obligation arises in contract, tort, or otherwise, solely by reason of being officers of the Company.

PROFITS AND LOSSES; DISTRIBUTIONS; ACCOUNTING MATTERS

Allocation of Profits and Losses. All income, gain, loss, deductions and credits of the Company shall be allocated to the Member.

Distributions. Subject to applicable law and any limitations contained elsewhere in this Agreement, the Manager may elect from time to time to make distributions to the Member. No such distributions shall be made to the Member to the extent that the Manager determine, in its sole discretion, that funds are not reasonably available for such distribution by virtue of applicable law, contractual obligation or current or future needs of the Company.

Books, Fiscal Year.

The books of the Company shall be kept on the basis as determined by the Manager. The Manager shall keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions and proceedings under this Agreement, and all such accounts and other records relating thereto shall be open to inspection and audit at all reasonable times by the Member.

The fiscal year of the Company shall be the calendar year.

Tax Returns. The Manager shall cause to be prepared and filed all necessary federal and state tax returns for the Company.

INDEMNIFICATION

Indemnification. The Company shall defend and indemnify any Member or Manager and may indemnify any other person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that it, he or she is or was a Member, Manager, officer, employee or other agent of the Company or that, being or having been such a Member, Manager, officer, employee or agent, it, he or she is or was serving at the request of the Company as a manager, director, officer, employee or other agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise (all such persons being referred to hereinafter as an "**agent**"), to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit. The Manager shall be authorized, on behalf of the Company, to enter into indemnity agreements from time to time with any person entitled to be indemnified by the Company hereunder, upon such terms and conditions as the Manager deems appropriate in its business judgment.

Insurance. The Company may, to the extent commercially reasonable (as determined by the Manager), purchase and maintain insurance on behalf of any person who is or was an agent of the Company against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as an agent, whether or not the Company would have the power to indemnify such person against such liability under the provisions of 0 or under applicable law.

DISSOLUTION, LIQUIDATION AND TERMINATION OF THE COMPANY

Dissolution. The Company shall be dissolved and its affairs wound up on the first to occur of the following:

the written election of the Manager and Member to dissolve; or

an entry of a decree of judicial dissolution of the Company.

Liquidation and Termination. On dissolution of the Company, the Manager shall proceed diligently to wind up the affairs of the Company and make final distributions as provided herein and in the Act. The costs of liquidation shall be borne as a Company expense. Until final distribution, the Manager shall continue to manage the Company assets with all of the power and authority of the Manager. A reasonable time shall be allowed for the orderly liquidation of the assets of the Company and the discharge of liabilities to creditors so as to enable the Manager to minimize any losses resulting from liquidation. The Manager, as promptly as possible after dissolution, shall apply the proceeds of liquidation as set forth in the remaining sections of this 0.

Payment of Debts. The assets shall first be applied to the payment of the liabilities of the Company and the expenses of liquidation.

Remaining Distribution. The remaining assets shall then be distributed to the Member.

Reserve. Notwithstanding the foregoing provisions, the Manager may retain such amount as it deems necessary as a reserve for any contingent liabilities or obligations of the Company, which reserve, after the passage of a reasonable period of time, shall be distributed pursuant to the provisions of this 0.

Final Accounting. The Member shall be furnished with a statement prepared by the Company's accountants, which shall set forth the assets and liabilities of the Company as of the date of the complete liquidation. Upon the compliance by the Manager with the foregoing distribution plan, the Manager shall execute (or cause to

be executed) and cause to be filed a Certificate of Cancellation and any and all other documents necessary with respect to termination and cancellation of the Company under the Act.

AMENDMENTS

This Agreement may be amended only by action of the Manager, with the written consent of the Member.

MISCELLANEOUS

Tax Matters. The Company will not elect for federal, state or local income taxes to be treated as an association taxable as a corporation.

Governing Law. The laws of the state of Delaware will govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the Members, without reference to principles of conflicts of law.

Titles and Captions. All titles and captions are for convenience only, do not form a substantive part of this Agreement, and shall not restrict or enlarge any substantive provisions of this Agreement.

Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the person or persons may require.

Counterpart Execution. This Agreement may be executed in any number of counterparts (including by means of electronic signature pages) with the same effect as if all signatories had signed the same document. All counterparts will be construed together and will constitute one agreement.

DEFINITIONS

Definitions. As used in this Agreement, the following definitions will apply to the capitalized terms indicated below:

"**Act**" means the Delaware Limited Liability Company Act, as amended from time to time.

"**Capital Contributions**" means the amount of money and the fair market value of any property contributed to the Company by a Member whenever made net of any liability of such Member assumed by the Company and any liability secured by property contributed by such Member. Any reference to a capital contribution of a Member will include the Capital Contribution made by a predecessor of such Member.

"**Company**" means [__], LLC, a Delaware limited liability company, and any of its successors or assigns.

RESTRICTIONS

General Restrictions. Notwithstanding any other provisions of this Agreement, the Company must not carry on any activities not permitted to be carried on by an organization exempt from federal income tax under Code Section 501(c)(3), or by an organization to which contributions are deductible under Code Sections 170(b)(1)(A) or (B) and 170(c)(2) (or the corresponding provisions of any future United States internal revenue law). In the event that the Member, as an organization exempt from federal income tax under Code Section 501(c)(3) (a "**Tax-Exempt**

Member"), at any time determines, in its reasonable judgment, that such Tax-Exempt Member's tax-exempt status is threatened, the Tax-Exempt Member may cause the Member to take, and the Member shall take, all actions necessary to preserve the tax-exempt status of the Tax-Exempt Member, including (i) dissolution of the Company; (ii) election by the Company to be taxable as an association; or (iii) other actions to further the tax-exempt purpose of the Tax-Exempt Member rather than furthering the financial interest of the Company.

No Substantial Lobbying. No substantial part of the activities of the Company may be the carrying on of propaganda, or otherwise attempting to influence legislation, provided that if the Company or a Member of the Company may and does make the election provided in Code Section 501(h) (or the corresponding provisions of any future United States internal revenue law), the Company thereafter may engage in such activities to the extent it is permitted to do so under that section without destroying the exemption of its Member from taxation under Code Section 501(a).

No Political Campaigning. The Company may not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of or in opposition to any candidate for public office.

No Private Inurement. No part of the net earnings or property of the Company may inure to the benefit of, or be distributable to its Member, managers, trustees, officers, or other private persons, other than any person qualified as exempt from federal income tax under Code Section 501(c)(3) (or the corresponding provisions of any future United States internal revenue law); except that the Company is authorized and empowered to pay reasonable compensation for goods or services rendered, to pay a reasonable return to investors in accordance with the terms of notes or other investment or debt instruments issued by the Company in connection with raising and making funds available for forest rehabilitation and resilience programs, and to make payments and distributions in furtherance of the purposes set forth in Article 2 of this Agreement.

Irrevocable Dedications. The income and assets of the Company are irrevocably dedicated to its exclusive purposes, as set forth in Section 1.3.

Contingent Restrictions. In the event that the Internal Revenue Service determines that the Member is a private foundation within the meaning of Code Section 509 (or the corresponding provisions of any future United States internal revenue law), and only during the period during which such determination applies, notwithstanding any other provision of this Agreement, this Section 11.6 will apply and the Company shall: (a) not engage in any act of "self-dealing" (as defined in Code Section 4941(d)) that would subject any Member of the Company to tax under Code Section 4941; (b) distribute its income for each taxable year for the purposes specified in Section 1.3 at such time, in such manner, and in such amounts as are necessary to avoid subjecting any Member of the Company to tax under Code Section 4942; (c) not retain any "excess business holding" (as defined in Code Section 4943(c)) that would subject any Member of the Company to tax under Code Section 4943; (d) not make any investments that would jeopardize the carrying out of any exempt purposes of any Member of the Company (within the meaning of Code Section 4944) and thereby subject the Member to tax under Code Section 4944; and (e) not make any "taxable expenditures" (as defined in Code Section 4945(d)) that would subject any Member of the Company to tax under Code Section 4945.

[*Signature page follows*]

Appendix C

SPV Case Study

The following is an example of the Case Studies that were done of the Pro Formas of each CDFI's Survey inputs. The full Pro Forma financials follow the Case Study in Appendix D. CDFI questions that arose from the Case Studies are in the FAQs in Appendix E.

Objective

For over 30 years, the CDFI industry has managed loan portfolios in low-income communities with discipline and care. The result has been superior credit performance. However, CDFIs do not enjoy access to equity in the capital markets. The objective of the CDFI Equity Funding Project is to develop a blueprint for enabling CDFIs of all sizes to obtain long term patient capital in the form of preferred equity from the mainstream capital markets.

Structure

Participating CDFIs set up for-profit special purpose vehicles which are 100% owned subsidiaries. These SPVs issue preferred equity. The preferred equity is cumulative and has a redemption period of 25 years or more. It qualifies as true equity on the balance sheet of the SPV as well as the consolidated balance sheet of the CDFI. It is on the asset side of the balance sheet of the CDFI Parent Alone in the form of cash.

The SPVs use the preferred equity to help purchase new and existing loans from their CDFI parent. The purchases (and sales) are conducted on an arms-length basis. The proceeds of the preferred equity are unrestricted: proceeds may be used to fund operations and advances to the parent CDFI as well as new and existing loans.

There is an intermediary platform called Source LP (working title) which purchases this preferred equity from the SPV. The Source is capitalized by common equity held by banks and foundations. The common equity is provided on a concessionary basis. The Source also issues its own preferred units to private investors at a market rate. It also raises debt at a market rate.

A major objective of this project is to enable the Source LP to gain access to the public capital markets for issuing common stock as well as preferred stock. When it achieves this, CDFIs will be able to use this channel to gain access to trillions of dollars of conventional capital market debt and equity.

The Source manages the portfolio of preferred stock issued by the SPVs of the participating CDFIs. The Source deals directly and independently with each CDFI SPV: there are no cross defaults, cross collateralizations or joint and several obligations for the participating CDFIs. Asset classes, lending parameters, portfolio diversification, terms, conditions and pricing are guided by an Advisory Committee of CDFI industry participants who report to the Source Board.

Process

Once every quarter, participating CDFIs sell new or existing loans to their individual SPVs. The loans fit within the lending parameters established by the Source and the participants. The SPV issues preferred equity in the amount of 20% of each $1 dollar of loan sold, which is automatically purchased by the Source. The CDFI simultaneously invests 10% of each $1 dollar sold in the form of common equity in the SPV. While the remaining 70% in bank debt could come directly from the banks into the SPV, for the purposes of this exercise (and for fund start-up) the 70% comes from the banks through the parent CDFI.

The Source manages the portfolio of SPV preferred equity with a small staff of risk management specialists using portfolio data and automated forecasting tools as well as AERIS reports. There is a system of graduated remedies in the event an SPV is unable to comply with the lending parameters. The Source has a claim on the loan portfolio in each SPV. The claim is subordinate to the 70% in debt funding but senior to the CDFI common equity in the SPV.

Next Steps

Discuss the draft forecast below with the Center for Impact Finance in order to improve it and align it more precisely with your plans.

Benefits to growth and efficient use of equity and grant funds: The leverage of the SPV starts at 2.22:1 but declines over the period down to 1.86 (line 188 of the Summary of Key Features on the next page). This is primarily due to the growth in retained earnings. More important, though, is the leveraging figure of CDFI Net Assets in line 189: with the new preferred equity from the Source helping capitalize the loan volume, the CDFI is leveraging its own Net Assets at a ratio of 8.5:1. This is more than double the maximum it can do on its own balance sheet. This represents a material saving of grant funds at the CDFI parent level.

Infusion of cash: Because the proceeds of the SPV preferred equity are unrestricted, they can be upstreamed to the parent CDFI (line 190). At the parent CDFI the proceeds are unrestricted cash as an asset and as equity on both a parent alone and consolidated basis. In both cases they represent real improvements in liquidity. In addition to the proceeds of the preferred stock, the CDFI also receives cash from the SPV to cover its operating costs, like lending, servicing, and administrative support (line 191). In the forecast we use the survey data to establish the cost of originating and servicing loans, and add a management fee of 5.00% of outstanding loans to cover the other costs. The CDFI establishes the level of reimbursement for costs in its operating agreement. To the extent the CDFI is providing the bank debt portion of the loan (the 70 cents per loan dollar) it also receives cash for debt repayment, the terms of which are discretionary. In short, there is ample room for cash flow from the SPV to cover costs and cash needs, even without paying any common stock dividends.

Trade-offs in cost: The preferred equity in this scenario carries a dividend of 6% (line 194). That exceeds the cost of long-term debt by over 2.5%. Moreover, in this C-Corp structure the SPV is a for-profit entity, interest expense is tax-deductible, but dividends are not. So the equity costs even more than 2.5% over the debt based on market conditions at the time this report was drafted. In addition to the cost of taxes, there are costs associated with setting up and managing an SPV (line 199). We assume these to be about $50,000 a year.

The costs vary from year to year and can be managed to decline by a percentage point or two over time—based on volume as well as services needed. Regardless, there is a material increase in actual money-out-the-door costs, as we can see in the Summary of Key Features chart below. But again, this is equity and compares well with similar instruments in the capital markets. In order to justify the use of these funds, management will want to identify the clear need for long-term funding with equity features, and the considerable flexibility it allows in the use of proceeds.

The ultimate question is: given the differences in cost of funds (as evidenced in lines 201 vs 202), can we develop a loan growth scenario that maximizes the benefits in terms of volume and flexibility, while minimizing the cost? The best way to answer the question is to run a number of "what-if" scenarios on the model and see which of them achieves the greatest impact with the greatest efficiency.

This is what the CDFI Equity Project Team at the Center for Impact Finance is prepared to assist with over the coming weeks.

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
SUMMARY OF KEY FEATURES OF THE SPV											
Loan Volume $	179	$5,000,000	$5,500,000	$6,000,000	$6,500,000	$7,000,000	$7,500,000	$8,000,000	$8,500,000	$9,000,000	$9,500,000
Loan Volume #	180	10	11	12	13	14	15	16	17	18	19
Loan Balance	181	$4,943,750	$10,206,875	$15,279,438	$19,189,681	$23,334,060	$27,729,450	$32,375,851	$37,273,264	$42,421,687	$47,821,122
Total Assets	182	$4,816,463	$10,018,614	$15,033,905	$18,874,051	$22,867,675	$27,197,665	$31,685,985	$36,474,094	$41,435,182	$46,719,457
Total Debt	183	$3,291,150	$6,811,595	$9,994,588	$12,091,451	$14,663,675	$16,751,280	$19,440,999	$22,478,627	$25,756,458	$30,260,215
SPV Preferred Stock Balance	184	$988,750	$2,041,375	$3,055,888	$3,837,936	$4,246,799	$5,545,890	$6,475,170	$7,454,653	$8,484,337	$8,703,444
CDFI Investment in SPV Common Stock Balance	185	$595,946	$1,122,258	$1,629,515	$2,020,539	$2,434,977	$2,874,516	$3,339,156	$3,828,897	$4,343,739	$4,911,548
SPV Retained Earnings	186	($101,571)	($16,471)	$276,489	$831,607	$1,413,632	$1,900,274	$2,286,782	$2,548,789	$2,667,170	$2,639,304
Total Equity	187	$1,483,125	$3,147,162	$4,961,892	$6,690,082	$8,095,408	$10,320,679	$12,101,108	$13,832,339	$15,495,246	$16,254,297
SPV Leverage	188	2.22	2.16	2.01	1.81	1.81	1.62	1.61	1.63	1.66	1.86
Leverage of CDFI Net Assets	189	7.08	7.93	8.23	8.34	8.39	8.46	8.49	8.53	8.54	8.51
Cash upstreamable from the Preferred Stock Annuall	190	$988,750	$1,052,625	$1,014,513	$782,049	$1,248,889	$1,299,091	$929,280	$979,482	$1,029,685	$1,940,667
Cash upstreamed from Operations Anually	191	$205,931	$312,514	$418,471	$509,327	$606,134	$709,254	$818,801	$934,892	$1,057,648	$1,187,194
Total unrestricted cash upstreamable to Parent Annu	192	$1,194,681	$1,365,139	$1,432,984	$1,291,375	$1,855,023	$2,008,345	$1,748,081	$1,914,374	$2,087,332	$3,127,861
Cost of the SPV Preferred Equity Financing $	193	$59,325	$122,483	$183,353	$230,276	$254,808	$332,753	$388,510	$447,279	$509,060	$522,207
Cost of the SPV Preferred Equity Financing %	194	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Cost of Income Taxes $	195	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cost of Income Taxes %	196	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of Organization/Administration	197	$51,000	$52,020	$53,060	$54,122	$55,204	$56,308	$57,434	$58,583	$59,755	$60,950
Cost of Organization/Administration	198	5.16%	2.55%	1.74%	1.41%	1.30%	1.02%	0.89%	0.79%	0.70%	0.70%
Total Cost of the SPV Equity, Taxes, Administratior	199	$110,325	$174,503	$236,414	$284,398	$310,012	$389,062	$445,944	$505,862	$568,815	$583,156
Total Cost of the SPV ETA to the Preferred	200	11.16%	8.55%	7.74%	7.41%	7.30%	7.02%	6.89%	6.79%	6.70%	6.70%
Total Cost of Funds for the SPV	201	5.25%	4.66%	4.49%	4.46%	4.38%	4.41%	4.40%	4.38%	4.37%	4.31%
Existing Cost of Funds (Debt) for the CDFI	202	3.48%	3.49%	3.50%	3.52%	3.53%	3.55%	3.57%	3.59%	3.61%	3.62%
Earned Revenues	203	$582,938	$1,106,138	$1,632,616	$2,089,303	$2,372,037	$2,559,962	$2,750,211	$2,939,066	$3,128,385	$3,317,704
Net Profit After Tax	204	($42,246)	$207,582	$476,314	$785,394	$836,833	$819,395	$775,018	$709,287	$627,441	$494,341

Some Details on the Draft Forecast and an Actual CDFI Loan Origination Example

Beginning in 2021, your CDFI Survey forecasts 139 loans in the amount of $69.5mm over the ensuing 9 years. These are new loans for rehabbing multifamily borrowers in the average amount of $500,000 at 7.92 for 60 months. Average charge-offs are 2.58% and delinquencies run at 1.55%. The new SPV can borrow short term at LIBOR + 40 bp (approximately 2.64%), but in this scenario it only borrows long term at a rate of 3.31% for 120 months on a fixed monthly P&I payment basis. From an operating standpoint, it takes 189 hours for a lender to originate a loan and 26 hours annually for a servicer to service it. To this scenario we add a portfolio management fee of 5.00% of gross outstanding loans to compensate the CDFI for the services it renders to the SPV.

In the SUMMARY OF KEY FEATURES chart above, we use the line numbers in the second column:

Line 184: the automatically purchased preferred stock issued by the SPV on a quarterly basis at a rate of 20 cents on the dollar of loans.

Line 185: the CDFI invests 10 cents on every dollar of loan in the form of common stock. In order to provide the 50% cushion to the preferred stock, the CDFI also invests cash to cover any loss and preferred dividends (although these are non-cumulative). This explains the $595,946 in 2021—in addition to being 50% of the 988k in Preferred the CDFI has to fill in for the loss.

Line 188: Despite the loan growth, the SPV leverage will decline over time. This is due primarily to the fact that the retained earnings are growing.

Line 189: Although the leverage for the SPV is going down (which will, in turn, drive the consolidated CDFI leverage down), the amount of money that the CDFI's 10% investment in the SPV leverages goes up. In addition to the preferred equity, this improved efficiency is due to a regular increase in retained earnings in the SPV. This ratio shows how the CDFI makes much efficient use of its grant funds in building loan volume.

Lines 190-192: The primary way that the CDFI gets cash out of the SPV is through upstreaming of the proceeds from the issuance of the preferred equity (line 190) and reimbursements for its staff and administrative support (line 191). In the CDFI sector, operating expenses often exceed earned revenue (not including grants) so the CDFI will want to reimburse as much as it can from the SPV.

Lines 193-194: These two lines show the amount and rate of on the preferred equity that the SPV issues.

Lines 195-196: In this LP/LLC structure there is no income tax on the SPV operations. If it were a corporate structure, there would be taxes. These two lines show the amount of the income taxes and the extent to which the income taxes increase the cost of the SPV preferred equity. It can be a substantial amount, and it will vary from year to year. This cost is manageable to some degree: the CDFI can increase the reimbursement of expenses as it sees fit in order to minimize taxes. But the CDFI has to be careful: the relationship with the SPV has to be arms-length and the operating agreement will govern the amount of discretion the CDFI has in making these adjustments. Moreover, the SPV does need to be profitable and cover its preferred stock dividends, which are paid out after the taxes are paid.

Lines 197-198: The organization/administration costs consist of costs that are specific to the setting up an operation of the SPV. These are items like legal, auditing, added portfolio reporting, board meetings, etc. This may be more than the $50,000 we project in the first year, but would likely be less in the following years.

Lines 199-202. This establishes a quick comparison of the cost of funds with the SPV preferred, when we add taxes and SPV-specific administrative costs to the preferred dividend payments. As you can see, the SPV preferred are very expensive (line 200) when compared in this way to the current debt-based cost of funds (line 202). To be sure, they are not expensive compared with conventional forms of capital market equity. But they are clearly more expensive than the current long-term debt. Of course, the SPV preferred don't represent more than 20% of assets, so we also have to see what the all-in rate is when the costs are spread across all of the assets. This we show in line 201. The result is that the all-in cost of funds with the SPV preferred runs about 1.8 percentage points over the existing debt-based cost of funds down to about .7% over. This is primarily a function of the lower leverage.

Key Operational Inputs

This is a screenshot of the operational inputs for the SPV. For loan origination and servicing, we have taken the data from your survey. The other input fields are established in the event that you want specificity in the operating agreement. For the purposes of this draft, however, we have selected the option of using a portfolio management fee (Excel line 510) to cover all costs above and beyond origination and servicing. The fee is based on the gross loans outstanding.

Appendix D

Financials for the Individual SPV Case

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
OPERATING STATEMENT											
Income from Short Term Investments	1	$465	$465	$2,325	$4,650	$5,580	$5,580	$7,905	$8,835	$10,230	$11,625
Interest Revenue from Loans	2	$482,473	$995,673	$1,510,291	$1,954,653	$2,226,457	$2,404,382	$2,582,306	$2,760,231	$2,938,155	$3,116,079
Origination Fees	3	$100,000	$110,000	$120,000	$130,000	$140,000	$150,000	$160,000	$170,000	$180,000	$190,000
Management Fees	4	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Revenues	5										
Total Revenues	6	$582,938	$1,106,138	$1,632,616	$2,089,303	$2,372,037	$2,559,962	$2,750,211	$2,939,066	$3,128,385	$3,317,704
Staff costs for SPV (paid to staff or to CDFI Parent)	7	$131,775	$159,411	$189,280	$221,482	$256,123	$293,312	$333,163	$375,793	$421,322	$469,877
Non-staff costs paid to CDFI parent	8	$74,156	$153,103	$229,192	$287,845	$350,011	$415,942	$485,638	$559,099	$636,325	$717,317
Professional fees for SPV-specific services	9	$51,000	$52,020	$53,060	$54,122	$55,204	$56,308	$57,434	$58,583	$59,755	$60,950
Provision for Losses	10	$253,750	$296,313	$334,722	$314,950	$355,563	$379,770	$404,820	$429,871	$454,921	$479,972
Interest Expense	11	$114,502	$237,709	$350,048	$425,511	$518,304	$595,235	$694,138	$806,433	$928,621	$1,095,248
Total Expenses	12	$625,183	$898,556	$1,156,302	$1,303,909	$1,535,204	$1,740,567	$1,975,193	$2,229,779	$2,500,944	$2,823,363
Net Profit before Tax and Dividends	13	-$42,246	$207,582	$476,314	$785,394	$836,833	$819,395	$775,018	$709,287	$627,441	$494,341
SPV Unrelated Business Income Taxes	14	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Profit After Tax	15	-$42,246	$207,582	$476,314	$785,394	$836,833	$819,395	$775,018	$709,287	$627,441	$494,341
Total Preferred Dividends	16	$59,325	$122,483	$183,353	$230,276	$254,808	$332,753	$388,510	$447,279	$509,060	$522,207
Net Profit after Tax and Dividends	17	-$101,571	$85,099	$292,961	$555,118	$582,025	$486,641	$386,508	$262,007	$118,380	-$27,865
Total Operating Expenses	18	$256,931	$364,534	$471,532	$563,449	$661,338	$765,562	$876,235	$993,475	$1,117,402	$1,248,143
Total Financing Expenses (Interest, Taxes, Dividends	19	$173,827	$360,192	$533,401	$655,787	$773,112	$927,988	$1,082,648	$1,253,713	$1,437,681	$1,617,455
Operating Profit (Before Interest and Losses) to Rev	20	56%	67%	71%	73%	72%	70%	68%	66%	64%	62%
Net Profit Before Tax and Divs to Revenues	21	-7%	19%	29%	38%	35%	32%	28%	24%	20%	15%
Net Profit After Tax to Revenues	22	-7%	19%	29%	38%	35%	32%	28%	24%	20%	15%
Net Profit After Tax and Divs to Revenues	23	-17%	8%	18%	27%	25%	19%	14%	9%	4%	-1%
Net Profit After Tax to Avg. Assets	24	-1%	3%	4%	5%	4%	3%	3%	2%	2%	1%
Net Profit After Tax and Divs to Avg. Assets	25	-2%	1%	2%	3%	3%	2%	1%	1%	0%	0%
Net Profit After Tax as % of Common Stock	26	-7%	18%	29%	39%	34%	29%	23%	19%	14%	10%
SPV Preferred Stock Dividend Coverage (NPAT)	27	0%	169%	260%	341%	328%	246%	199%	159%	123%	95%

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BALANCE SHEET											
Cash	28	$2,658	$22,985	$13,323	$18,478	$31,632	$31,765	$26,767	$58,099	$23,948	$24,524
Short Term Investments	29	$25,000	$125,000	$250,000	$300,000	$300,000	$425,000	$475,000	$550,000	$625,000	$750,000
Accounts Receivable	30	$92,555	$175,691	$259,053	$331,251	$376,030	$405,891	$435,752	$465,614	$495,475	$525,336
Current Loans Receivable	31	$0	$0	$1,141,202	$1,255,322	$1,369,442	$1,483,562	$1,597,682	$1,711,802	$1,825,922	$1,940,043
Current Assets	32	$120,213	$323,676	$1,663,578	$1,905,051	$2,077,104	$2,346,218	$2,535,202	$2,785,515	$2,970,345	$3,239,903
Senior Loans	33	$4,943,750	$10,206,875	$14,138,237	$17,934,359	$21,964,618	$26,245,888	$30,778,169	$35,561,461	$40,595,765	$45,881,079
Subordinated Loans	34										
Loss Reserve	35	-$247,500	-$511,938	-$767,909	-$965,359	-$1,174,047	-$1,394,441	-$1,627,386	-$1,872,882	-$2,130,928	-$2,401,525
Net Loans	36	$4,696,250	$9,694,938	$13,370,327	$16,969,000	$20,790,571	$24,851,447	$29,150,783	$33,688,579	$38,464,837	$43,479,554
Total Assets	**37**	**$4,816,463**	**$10,018,614**	**$15,033,905**	**$18,874,051**	**$22,867,675**	**$27,197,665**	**$31,685,985**	**$36,474,094**	**$41,435,182**	**$46,719,457**
Accounts Payable	38	$42,188	$59,857	$77,425	$92,518	$108,592	$125,705	$143,878	$163,129	$183,477	$204,945
Accrued Expenses	39	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxes Payable	40	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Short Term Debt	41	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Portion of Long Term Debt	42	$319,230	$702,392	$1,102,866	$1,450,292	$1,889,201	$2,338,427	$2,904,726	$3,578,731	$4,364,063	$4,941,037
Current Liabilities	43	$361,418	$762,249	$1,180,291	$1,542,810	$1,997,793	$2,464,132	$3,048,604	$3,741,860	$4,547,540	$5,145,982
Long Term Debt	44	$2,971,920	$6,109,203	$8,891,722	$10,641,159	$12,774,474	$14,412,853	$16,536,273	$18,899,895	$21,392,395	$25,319,178
Total Liabilities	45	$3,333,338	$6,871,452	$10,072,013	$12,183,969	$14,772,267	$16,876,986	$19,584,877	$22,641,755	$25,939,935	$30,465,160
SPV Preferred Stock - SOURCE Controlled	46	$98,875	$204,138	$305,589	$383,794	$466,681	$554,589	$647,517	$745,465	$848,434	$956,422
SPV Preferred Stock - SPV Controlled	47	$889,875	$1,837,238	$2,750,299	$3,454,143	$3,780,118	$4,991,301	$5,827,653	$6,709,187	$7,635,904	$7,747,022
CDFI Common Equity A	48	$494,375	$1,020,688	$1,527,944	$1,918,968	$2,333,406	$2,772,945	$3,237,585	$3,727,326	$4,242,169	$4,782,112
CDFI Common Equity B	49	$101,571	$101,571	$101,571	$101,571	$101,571	$101,571	$101,571	$101,571	$101,571	$129,436
Total CDFI Common Equity	50	$595,946	$1,122,258	$1,629,515	$2,020,539	$2,434,977	$2,874,516	$3,339,156	$3,828,897	$4,343,739	$4,911,548
Retained Earnings	51	-$101,571	-$16,471	$276,489	$831,607	$1,413,632	$1,900,274	$2,286,782	$2,548,789	$2,667,170	$2,639,304
Total Equity	52	$1,483,125	$3,147,162	$4,961,892	$6,690,082	$8,095,408	$10,320,679	$12,101,108	$13,832,339	$15,495,246	$16,254,297
Total Liabilities & Equity	**53**	**$4,816,463**	**$10,018,614**	**$15,033,905**	**$18,874,051**	**$22,867,675**	**$27,197,665**	**$31,685,985**	**$36,474,094**	**$41,435,182**	**$46,719,457**
Reconciliation		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Ratio	54	0.33	0.42	1.41	1.23	1.04	0.95	0.83	0.74	0.65	0.63
Quick Ratio	55	0.08	0.19	0.22	0.21	0.17	0.19	0.16	0.16	0.14	0.15
Debt to Equity	56	2.22	2.16	2.01	1.81	1.81	1.62	1.61	1.63	1.66	1.86
Debt to SPV Preferred	57	3.33	3.34	3.27	3.15	3.45	3.02	3.00	3.02	3.04	3.48
SPV Preferred % to Equity	58	0.67	0.65	0.62	0.57	0.52	0.54	0.54	0.54	0.55	0.54
Loss Reserve to Total Loans	59	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Provision of Losses to Loss Reserve	60	1.03	0.58	0.44	0.33	0.30	0.27	0.25	0.23	0.21	0.20
Charge-offs to Provision for Losses	61	0.02	0.11	0.24	0.37	0.41	0.42	0.42	0.43	0.43	0.44
Delinquent loans to Total Loans	62										
Delinquent Loans to Loss Reserve	63										
Cash and Investments less Debt $ (Liquid Collateral)	64	($3,263,492)	($6,663,610)	($9,731,265)	($11,772,973)	($14,332,044)	($16,294,515)	($18,939,232)	($21,870,528)	($25,107,510)	($29,485,691)
SPV Preferred Risk Asset Coverage %	65	150.00%	154.17%	162.37%	174.31%	190.62%	186.10%	186.88%	185.55%	182.63%	186.76%
Cash and Investments less ST Debt $ (Liquid Collate	66	$27,658	$147,985	$263,323	$318,478	$331,632	$456,765	$501,767	$608,099	$648,948	$774,524
Asset Liquidation Book Value	67	$1,483,125	$3,147,162	$4,961,892	$6,690,082	$8,095,408	$10,320,679	$12,101,108	$13,832,339	$15,495,246	$16,254,297
% Risk Assets must shrink for SPV Preferred Defaul	68	29.02%	29.12%	30.59%	33.14%	33.34%	35.91%	36.31%	36.04%	35.62%	32.93%
Common Equity % Total Assets	69	12.4%	11.2%	10.8%	10.7%	10.6%	10.6%	10.5%	10.5%	10.5%	10.5%
Total Liabilities to Equity	70	2.25	2.18	2.03	1.82	1.82	1.64	1.62	1.64	1.67	1.87

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CASH FLOW											
		Start with 0									
Beginning Cash	71	0	$2,658	$22,985	$13,323	$18,478	$31,632	$31,765	$26,767	$58,099	$23,948
Net Profit After Tax and Dividends	72	($101,571)	$85,099	$292,961	$555,118	$582,025	$486,641	$386,508	$262,007	$118,380	($27,865)
Provision for Losses	73	$253,750	$296,313	$334,722	$314,950	$355,563	$379,770	$404,820	$429,871	$454,921	$479,972
Non-cash Items	74	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Sources from Ops	75	$152,179	$381,412	$627,683	$870,067	$937,588	$866,411	$791,328	$691,878	$573,302	$452,106
Accounts Receivable	76	($92,555)	($83,137)	($83,362)	($72,198)	($44,779)	($29,861)	($29,861)	($29,861)	($29,861)	($29,861)
Accounts Payable	77	$42,188	$17,668	$17,569	$15,093	$16,073	$17,114	$18,173	$19,251	$20,349	$21,468
Accrued Expenses	78	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxes Payable	79	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Uses	80	(50,367)	(65,468)	(65,793)	(57,105)	(28,705)	(12,748)	(11,689)	(10,610)	(9,512)	(8,393)
Net Operating Sources/(Uses)	81	101,812	315,944	561,890	812,962	908,883	853,663	779,639	681,268	563,789	443,713
Gross Loan Originations	82	($5,000,000)	($5,500,000)	($6,000,000)	($6,500,000)	($7,000,000)	($7,500,000)	($8,000,000)	($8,500,000)	($9,000,000)	($9,500,000)
Loan Principal Amortization	83	$0	$0	$373,687	$1,552,257	$1,703,746	$1,855,235	$2,006,724	$2,158,213	$2,309,701	$2,461,190
Prepayments	84	$50,000	$205,000	$475,000	$920,000	$1,005,000	$1,090,000	$1,175,000	$1,260,000	$1,345,000	$1,430,000
Changes in Loans	85	($4,950,000)	($5,295,000)	($5,151,313)	($4,027,743)	($4,291,254)	($4,554,765)	($4,818,276)	($5,081,787)	($5,345,299)	($5,608,810)
New Short Term Debt	86	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Short Term Debt: Amortization	87	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New Long Term Debt	88	$3,600,000	$4,200,000	$4,250,000	$3,500,000	$4,400,000	$4,350,000	$5,500,000	$6,500,000	$7,500,000	$9,700,000
Long Term Debt: Amortization	89	($308,850)	($679,555)	($1,067,007)	($1,403,137)	($1,827,775)	($2,262,395)	($2,810,281)	($3,462,372)	($4,222,169)	($5,196,242)
New SPV Preferreds Issued	90	$988,750	$1,052,625	$1,014,513	$782,049	$828,876	$1,299,091	$929,280	$979,482	$1,029,685	$1,079,887
SPV Controlled SPV Preferreds Redeemed	91	$0	$0	$0	$0	($420,013)	$0	$0	$0	$0	($860,780)
SOURCE Controlled SPV Preferred Redeemed	92	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New Common Stock A Issued	93	$494,375	$526,313	$507,256	$391,024	$414,438	$439,539	$464,640	$489,741	$514,842	$539,943
Total Financing	94	$4,774,275	$5,099,383	$4,704,762	$3,269,936	$3,395,525	$3,826,235	$4,083,639	$4,506,852	$4,822,358	$5,262,808
Cash Flow Before Sweep and Injection	95	($73,913)	$120,327	$115,339	$55,155	$13,154	$125,133	$45,002	$106,332	$40,849	$97,711
New Common Stock B Issued	96	$101,571	$0	$0	$0	$0	$0	$0	$0	$0	$27,865
Cash Flow after Common Stock B Purchased	97	$27,658	$120,327	$115,339	$55,155	$13,154	$125,133	$45,002	$106,332	$40,849	$125,576
Short Term Investments (Increase)	98	($25,000)	($100,000)	($125,000)	($50,000)	$0	($125,000)	($50,000)	($75,000)	($75,000)	($125,000)
Short Term Investments Decrease	99	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Change in Cash	100	$2,658	$20,327	($9,661)	$5,155	$13,154	$133	($4,998)	$31,332	($34,151)	$576
Ending Cash	101	$2,658	$22,985	$13,323	$18,478	$31,632	$31,765	$26,767	$58,099	$23,948	$24,524
Ending Short Term Investments	102	$25,000	$125,000	$250,000	$300,000	$300,000	$425,000	$475,000	$550,000	$625,000	$750,000
Reconciliation of Cash Flow and Balance Sheet											
Ending Cash	96	$2,658	$22,985	$13,323	$18,478	$31,632	$31,765	$26,767	$58,099	$23,948	$24,524
Free Cash Flow $ (NPBT plus changes in WC)+prin	97	$161,137	$438,426	$1,118,930	$2,595,495	$2,867,437	$3,041,652	$3,174,873	$3,286,759	$3,382,551	$3,427,110
Years to Repay Debt	98	20.42	15.54	8.93	4.66	5.11	5.51	6.12	6.84	7.61	8.83
FCF % to SPV Preferred Purchases	99	16.3%	41.7%	110.3%	331.9%	345.9%	234.1%	341.6%	335.6%	328.5%	317.4%
SPV Redemptions to SPVs Preferred Issued (Annual	100	0%	0%	0%	0%	51%	0%	0%	0%	0%	80%

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
INDICATORS											
Footings											
Average Assets	101	$2,408,231	$7,417,538	$12,526,259	$16,953,978	$20,870,863	$25,032,670	$29,441,825	$34,080,039	$38,954,638	$44,077,319
Average Total Debt	102	$1,645,575	$5,051,372	$8,403,091	$11,043,019	$13,377,563	$15,707,478	$18,096,140	$20,959,813	$24,117,542	$28,008,336
Average Total Equity	103	$741,563	$2,315,143	$4,054,527	$5,825,987	$7,392,745	$9,208,044	$11,210,894	$12,966,723	$14,663,793	$15,874,772
Avg. Total Debt to Avg. Total Assets	104	2.22	2.18	2.07	1.90	1.81	1.71	1.61	1.62	1.64	1.76
Investments											
Average Investments (Cash and Marketable Securitie	105	$60,106	$175,667	$335,180	$456,526	$513,070	$597,144	$697,142	$787,740	$876,261	$974,404
Avg. Investments to Avg. Assets	106	0.02	0.02	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02
Loans Outstanding (Portfolio Assets)											
Average Loans Outstanding #	107	5	15.5	27	39.5	53	67.5	83	99.5	117	135.5
Average Loans Outstanding $	108	$2,471,875	$7,575,313	$12,743,157	$17,234,559	$21,261,870	$25,531,755	$30,052,650	$34,824,557	$39,847,475	$45,121,404
Average Size of Loans in Portfolio	109	$494,375	$486,042	$463,013	$417,167	$388,901	$369,726	$355,779	$345,123	$336,680	$329,801
Size of New Loans	110	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000
Avg. Loans to Avg. Assets	111	102.6%	102.1%	101.7%	101.7%	101.9%	102.0%	102.1%	102.2%	102.3%	102.4%
Yrs to Portfolio Maturity at Yrs Payment Level	112	0	0	41	12	14	15	16	17	18	19
Number of Loans in Portfolio Beginning of Yr	113	0	10	11	12	13	14	15	16	17	18
Number of Loans Made/Purchased	114	10	11	12	13	14	15	16	17	18	19
SPV Preferreds (Funding)											
Average SPV Preferreds $	115	$494,375	$1,515,063	$2,548,631	$3,446,912	$4,042,368	$4,896,344	$6,010,530	$6,964,911	$7,969,495	$8,593,891
Cash & Investments to SPV Preferreds	116	2.80%	7.25%	8.62%	8.30%	7.81%	8.24%	7.75%	8.16%	7.65%	8.90%
Current Liabilities to SPV Preferreds	117	36.55%	37.34%	38.62%	40.20%	47.04%	44.43%	47.08%	50.19%	53.60%	59.13%
Total Liabilities to SPV Preferreds	118	337.13%	336.61%	329.59%	317.46%	347.84%	304.32%	302.46%	303.73%	305.74%	350.04%
SPV Preferreds to Common Stock	119	165.91%	181.90%	187.53%	189.95%	174.41%	192.93%	193.92%	194.69%	195.32%	177.20%
SPV Preferreds to Total Assets	120	20.53%	20.38%	20.33%	20.33%	18.57%	20.39%	20.44%	20.44%	20.48%	18.63%
Operating Costs											
Operating Cost per Loan Made or Purchased % Loar	121	23.62%	25.98%	28.34%	30.70%	33.06%	35.42%	37.79%	40.15%	42.51%	44.87%
Operating Cost per Loan Made or Purchased $	122	$118,080	$129,888	$141,696	$153,504	$165,312	$177,120	$188,928	$200,736	$212,544	$224,352
Operating Cost per loan for all New and Existing Loa	123	5.20%	3.57%	3.09%	2.94%	2.83%	2.76%	2.71%	2.67%	2.63%	2.61%
Operating Cost per loan for all Existing and New Loa	124	$25,693	$17,359	$14,289	$12,249	$11,022	$10,207	$9,629	$9,199	$8,868	$8,608
Staff Costs to All Loans	125	2.67%	1.56%	1.24%	1.15%	1.10%	1.06%	1.03%	1.01%	0.99%	0.98%
Non-staff Costs to All Loans	126	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Professional fees to All Loans	127	1.03%	0.51%	0.35%	0.28%	0.24%	0.20%	0.18%	0.16%	0.14%	0.13%
$ Operating expenses upstreamable to CDFI (Staff +	128	$205,931	$312,514	$418,471	$509,327	$606,134	$709,254	$818,801	$934,892	$1,057,648	$1,187,194
% of Operating Exp (Staff+Non-Staff)/ (Staff+Non-S	129	80.15%	85.73%	88.75%	90.39%	91.65%	92.64%	93.45%	94.10%	94.65%	95.12%
Total Cash upstreamable to CDFI (Staff+Non-Staff+	130	$1,194,681	$1,365,139	$1,432,984	$1,291,375	$1,435,010	$2,008,345	$1,748,081	$1,914,374	$2,087,332	$2,267,081
Increase in Operating Expenses with SPV	131	$51,000	$52,020	$53,060	$54,122	$55,204	$56,308	$57,434	$58,583	$59,755	$60,950
% Increase in Operating Expenses to Total Loans	132	1.03%	0.51%	0.38%	0.30%	0.25%	0.21%	0.19%	0.16%	0.15%	0.13%
% Increase in Operating Expenses to Total Revenues	133	8.75%	4.70%	3.25%	2.59%	2.33%	2.20%	2.09%	1.99%	1.91%	1.84%

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
INDICATORS (Cont.)											
Asset Yields											
Interest Revenue on Loans	134	$482,473	$995,673	$1,510,291	$1,954,653	$2,226,457	$2,404,382	$2,582,306	$2,760,231	$2,938,155	$3,116,079
Loan Interest Revenue	135	9.76%	9.75%	9.88%	10.19%	9.54%	8.67%	7.98%	7.41%	6.93%	6.52%
Interest Revenue on Advances to Parent	136	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Origination Fee Income	137	$100,000	$110,000	$120,000	$130,000	$140,000	$150,000	$160,000	$170,000	$180,000	$190,000
Servicing Fee Income	138	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Yield on Loans	139	11.50%	10.50%	10.32%	10.51%	9.84%	8.93%	8.23%	7.64%	7.16%	6.73%
Yield on Cash and Investments	140	1.7%	1.6%	1.8%	1.8%	1.7%	1.7%	1.8%	1.7%	1.8%	0.0%
NPAT to Avg Total Assets	141	(0.02)	0.03	0.04	0.05	0.04	0.03	0.03	0.02	0.02	0.01
NPATAD Yield on Total Assets	142	-2.11%	0.85%	1.95%	2.94%	2.55%	1.79%	1.22%	0.72%	0.29%	-0.06%
Funding Costs: Debt											
Interest Rate on Debt	143	3.48%	3.49%	3.50%	3.52%	3.53%	3.55%	3.57%	3.59%	3.61%	3.62%
Interest Expense	144	$114,502	$237,709	$350,048	$425,511	$518,304	$595,235	$694,138	$806,433	$928,621	$1,095,248
Net Interest Margin on Investments	145	-1.80%	-1.92%	-1.74%	-1.77%	-1.85%	-1.82%	-1.81%	-1.91%	-1.81%	-3.62%
Cost of Debt on Investments	146	$594	$2,966	$5,821	$6,763	$6,800	$9,301	$10,406	$12,160	$14,007	$17,582
Net Interest Margin for Loans	147	6.28%	6.27%	6.38%	6.67%	6.01%	5.12%	4.41%	3.82%	3.32%	2.90%
Cost of Debt on Loans	148	$117,528	$242,176	$355,765	$432,627	$528,874	$606,873	$709,250	$824,103	$950,730	$1,121,074
Consolidated Cost of Funds											
Total Interest and Dividend Cost $	149	$173,827	$360,192	$533,401	$655,787	$773,112	$927,988	$1,082,648	$1,253,713	$1,437,681	$1,617,455
Interest and Dividend Coverage (Pre Provision, Pre-I	150	1.88	2.06	2.18	2.33	2.21	1.93	1.73	1.55	1.40	1.28
Total Cash Cost to Total Assets	151	3.61%	3.60%	3.55%	3.47%	3.38%	3.41%	3.42%	3.44%	3.47%	3.46%
Total Cash Cost of Funding to Revenues	152	29.82%	32.56%	32.67%	31.39%	32.59%	36.25%	39.37%	42.66%	45.96%	48.75%
Cost of Funds on all borrowed debt and equity%	153	5.13%	5.13%	5.18%	5.26%	5.11%	5.36%	5.39%	5.40%	5.40%	5.18%
Increase over Cost of Funds over Interest Rate on De	154	1.65%	1.64%	1.68%	1.74%	1.58%	1.81%	1.82%	1.81%	1.80%	1.56%
Funding Costs: SPV Preferred											
Dividends paid on SPV Preferreds	155	$59,325	$122,483	$183,353	$230,276	$254,808	$332,753	$388,510	$447,279	$509,060	$522,207
% Cost of SPV Preferreds O/S	156	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
SPV Preferred Rec'd cover SPV Pfd Dividends Paid	157	16.67	8.59	5.53	3.40	3.25	3.90	2.39	2.19	2.02	2.07

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
INDICATORS (Cont.)											
Efficiency											
Operating Expense/Avg. Assets	158	0.11	0.05	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Revenue/Total Exp	159	0.93	1.23	1.41	1.60	1.55	1.47	1.39	1.32	1.25	1.18
Sustainability Ratio: Revs/All Distributions	160	93.2%	123.1%	141.2%	160.2%	154.5%	147.1%	139.2%	131.8%	125.1%	117.5%
Staff Costs $	161	$131,775	$159,411	$189,280	$221,482	$256,123	$293,312	$333,163	$375,793	$421,322	$469,877
Percent to New Loans in Portfolio	162	2.64%	2.90%	3.15%	3.41%	3.66%	3.91%	4.16%	4.42%	4.68%	4.95%
Percent to Average CDFI Loans Outstanding	163	5.33%	2.10%	1.49%	1.29%	1.20%	1.15%	1.11%	1.08%	1.06%	1.04%
Liquidity											
Cash & Investments to ST Liabs	164	0.08	0.19	0.22	0.21	0.17	0.19	0.16	0.16	0.14	0.15
Cash & Investments to Total Assets	165	0.01	0.01	0.02	0.02	0.01	0.02	0.02	0.02	0.02	0.02
Cash & Investments to Op Exp	166	0.11	0.41	0.56	0.57	0.50	0.60	0.57	0.61	0.58	0.62
Cash & Investments Months on Hand	167	0.53	1.98	2.73	2.93	2.59	3.15	3.05	3.27	3.11	3.29
Target Cash/Investments Month on Hand	168	-	-	-	-	-	-	-	-	-	-
Cash Needed to Meet Cash Target	169	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Redemptions/SPV Preferred Purchases	170	0.00%	0.00%	0.00%	0.00%	-50.67%	0.00%	0.00%	0.00%	0.00%	-79.71%
Redemptions/Avg SPV Preferred Outstanding	171	0.00%	0.00%	0.00%	0.00%	-10.39%	0.00%	0.00%	0.00%	0.00%	-10.02%
Op Sources to Op Uses	172	(3.02)	(5.83)	(9.54)	(15.24)	(32.66)	(67.97)	(67.70)	(65.21)	(60.27)	(53.86)
Capital											
Total Liabilities/Equity	173	2.25	2.18	2.03	1.82	1.82	1.64	1.62	1.64	1.67	1.87
Target Liabilities/Equity	174	-	-	-	-	-	-	-	-	-	-
Equity Needed to Meet Leverage Target	175	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Free Cash Flow to Debt	176	4.90%	6.44%	11.20%	21.47%	19.55%	18.16%	16.33%	14.62%	13.13%	11.33%
Years to Repay Debt	177	20	16	9	5	5	6	6	7	8	9
C/offs to Reserves+Net Assets	178	0.36%	0.87%	1.37%	1.53%	1.58%	1.36%	1.25%	1.17%	1.12%	1.12%

Appendix E

FAQS From the Participating CDFIS

1. **What are the best assets to sell to the SPV—mortgages, community facilities?**

The buying and selling of loans to and from the SPV (it can go both ways) is a paper transaction. Documents are not moved from one vault to another. Under the circumstances, larger longer-term loans make the job easier. However, there are no restrictions on the size or the number. At present only whole loans are eligible.

2. **I was unaware that the CDFIs would be required to invest in common stock in the SPV. Is that another equity offering that has to be developed similar to my first question? Is the purpose of that equity purchase to ensure that parent organization has "skin in the game"? Why is it necessary?**

The SPVs must be capitalized by the CDFI—and that is in the form of common stock. It should be handled no differently than an investment in any other for-profit investment made by the CDFI. Since the SPV is issuing—and the CDFI is buying—the stock for cash, and it is an intercompany transaction (the SPV is 100% owned by the CDFI), we believe this can be done as a paper transaction on the books. This has yet to be confirmed by counsel, however.

By definition, preferred stock needs to have common stock under it—and in this situation, the only proper source of the common stock is the CDFI. Unlike the common stock, the SPV Preferred Stock has no voting rights. The CDFI owns all the common stock and has all the voting rights. It controls the whole process as well as the risk.

But the CDFI is not losing something here: on the contrary, by putting its 10% equity into the SPV it is getting an additional 20% in new equity for its lending and operational activities that it couldn't get otherwise. One way to look at it is through this example:

- Case A—Without the SPV: The CDFI wants to make a $1,000,000 5-year multifamily mini-perm loan. It carves out $300,000 in net assets and borrows $700,000 in debt.

- Case B—With the SPV: The CDFI puts $100,000 of its net assets in the SPV and gets $200,000 of preferred stock put in by the Source. Then it borrows the $700,000.

With Case B, the CDFI uses 1/3 of its net assets to SOURCE the same loan, and yet, its leverage stays the same—because, on a consolidated basis, the preferred stock counts as equity.

It's important to keep in mind that the only reason for the existence of the SPV is that the CDFI, as a non-profit, cannot issue preferred stock.

3. **I do not understand the comments about 70% bank debt. Is it just for the purposes of your exercise that you assume that the loans sold to the SPV are 70% sourced by bank debt before the sale of the loans to the SPV? Is there a connection between the 70% bank debt and the 20% preferred stock and 10% common stock from CDFI?**

For our forecasting purposes, presently we are assuming that the debt portion of the SPV comes from the CDFI, and that in turn, the CDFI is borrowing from banks to source that 70%. This does not mean that the

CDFI is actually borrowing 70% (of its total loans) from banks. The CDFI could be borrowing 20% or 80%. It's just that the CDFI is allowing up to 70% of the SPVs assets to be in the form of senior debt. The senior debt is owed to the CDFI.

The easiest way to visualize it: if you put a $3 million chunk of your loan portfolio into the SPV, you would put the liabilities and net assets that SOURCE that chunk into the SPV as well. The CDFI can put more net assets in and less in the liabilities—i.e., 30% and 50% respectively, but it cannot put in less than 10% in net assets. Regardless of the breakdown you can get $600,000 in preferred stock into the SPV, and move that $600,000 in cash to the CDFI Parent as the portfolio is sold. You are getting $600,000 of new cash to replace the cash you had previously tied up in capitalizing the portfolio.

Yes, there is a direct connection among the 70%, 20% and 10%. That is the initial model that we are using for capitalizing the SPV with debt, preferred stock and common stock (respectively). Initially this is going to be a one-size fits all kind of capitalization. [We will suggest that, in time, the Advisory Board of the SOURCE set the capitalization percentages in alignment with the term and the risk of the loans in the loan portfolio. That is: a lower risk, shorter maturity portfolio of loans can be leveraged higher—maybe 80 or 90%, while a longer-term higher risk portfolio of loans should have a lower leverage.]

One more crucial point: The CDFI sells existing loans and/or new loans to the SPV on a quarterly basis, and as long as the loans fit the benchmarks established by the SOURCE in advance, they are automatically approved. This saves a tremendous amount of time, cost, and uncertainty. The Source protects its investment in the SPV preferred shares through financial covenants based on the 70/20/10 breakdown. [Note: The benchmarks are established by the SOURCE's Board under advisement of its CDFI-based Advisory Board. The Advisory Board recommends terms and conditions annually based on discussions with the CDFI participants.]

4. **For Operating Agreement with SPV, is it enough to say that the SPV has to return the interest receipts on loans to the parent to cover expenses and debt payments? Is it required that the costs of the parent associated with managing the SPV be detailed in a manner similar to what you have provided? Is this necessary to convey "arms-length"?**

We have not determined yet whether there is a prescribed method for processing principal and interest payments and whether they come in first to the CDFI or to the SPV or into an account that is jointly owned.

The key issue is to ensure that the buying and selling of loans and the costs associated with the activity are conducted at "arms-length." What this means is that the accountants and lawyers will want to see logic and consistency in the procedures and in the cash flows. Our line items are mere proxies on relevant expenses at this point. We are working with counsel to establish a standardized approach to the procedures and the management of the cash flows. There is ample boilerplate on these kinds of arrangements. If you have a preferred process, let us know and we'll see if it fits with the precedents.

5. **I do not understand "The SOURCE has a floating lien on the loan portfolio in each SPV. The lien is subordinate to the 70% in debt sourcing but senior to the CDFI common stock."**

A properly structured floating lien can significantly reduce the cost and the paperwork burden associated with perfecting security interests. At the inception of this effort, we used the concept of a floating lien to demonstrate to the rating agencies that the Source (the SOURCE) had a quantifiable claim on the assets in the SPV. We have found more recently that there are two problems with this: (1) the rating agencies give zero value to defaulted subordinate and/or equity-type financial instruments; and (2) the presence of a

floating lien compromises the preferred stock's qualification as equity. So the floating lien is no longer a feature of the structure.

However, the SPV Preferred Stock does have a claim that is junior to the SPV liabilities and senior to the CDFI's investment in the common stock.

6. **For balance sheet equity for SPV, I see SPV Preferred Stock-Source Controlled, SPV Preferred Stock-SPV Controlled, CDFI Common Stock Equity A, and Equity B. I do not understand why there are four items here instead of two: SPV issues Preferred Stock to Source (so why is there SPV Controlled Preferred Stock?) and CDFI buys common stock of SPV (why A and B?).**

Here is the breakout and the reasons we did it this way:

SPV Preferred Stock – SOURCE Controlled: in order to reduce the cost of the dividend and improve liquidity for its investors, the SOURCE may ask (upfront) the SPV to redeem a portion of the issue in the 5th, 10th 15th and/or 20th year. For our purposes this would not exceed 10% of the amount of shares outstanding in any of those years.

SPV Preferred Stock – SPV Controlled: the preferred shares are more expensive than long term debt for the CDFI participants. Because of this and/or because their cash inflows from amortization and prepayment exceed expectations, they may wish to redeem (buy back) the preferred shares. For our purposes this represents 90% of the shares outstanding.

Common Stock A: Every time there is an issue of preferred shares by the SPV, the SPV issues common stock at 50% of the value of the preferred.

Common Stock B: in any year in which the SPV incurs a loss after taxes and dividends (line 17 in the Operating Statement), it must issue additional shares to the CDFI to cover the loss and make up for the hit to retained earnings. This ensures that there is always a cushion under the preferred shares of at least 50%. It is one of the key financial covenants that enables the CDFI's delegated authority in selling loans to the SPV without getting re-underwritten or approved.

The sole reason for this separation of classes of stock is that it makes it easier to keep track of the reasons for the CDFI's investment in the stock.

7. **In the Case we received for our SPV, what is taking place in 2021—the Parent purchase of Common Stock of SPV? Why does this only leave $4,000 in cash? How is $51,000 determined? Why does it increase by $12,000 in 2022 and then never change again?**

What happens in 2021 and 2022:

Our estimate for all participants is that the organizational work that is done to create and maintain the SPV is about $51,000 (line 9) a year. It would clearly be more in the first year and less in the following years, but we are straight-lining it due to ease here (it can be changed).

In the first year, your survey shows that no loans are sold to the SPV. So all we show is the $51,000 cost for the set-up of the SPV and related organizational costs. Our model automatically populates line items like accounts payable based on your CDFIs historical figures. In this case, when you spend the $51,000, you still have $3,963 to pay on it at the end of the year—and that is in accounts payable (line 38). The matching figure is $3,963 in cash in line 28.

The common stock B comes directly from the Net Profit After Tax and Dividends in line 17. Every time there is a negative number in that line it adds directly to the Common Stock B. Every time there is a positive number in line 17 there is no need to issue additional common stock. So that is the reason that the $12,000 doesn't change again.

Appendix F

SPV and Unsecured CDFI Lenders

In this structure, the CDFI parent sells a loan to the SPV in an arm's length transaction at face value. In return for the loan asset, the SPV pays 20 cents on the dollar in cash, and issues a note payable to the CDFI parent for 70 cents on the dollar for a total of 90 cents. The remaining 10 cents on the dollar represents CDFI equity in the SPV and is documented by common stock (or partnership interest in the SPV). The SPV is 100% owned, operated, and managed by the CDFI. On a consolidated basis, the preferred stock raised by the SPV and the cash it brings in qualify as cash and true equity for the CDFI. Hence, the liquidity and capitalization increase while leverage declines as shown in the Chart in the SPV Lending Operations section.

The chief issue is: unsecured lenders to the CDFI parent are essentially getting 20 cents in cash, 70 cents in a note payable, and 10 cents in common equity from the SPV in exchange for the loan. While the cash represents a more valuable asset than the loan, it is not clear to the unsecured lender that the risk of the SPV debt and equity instrument represent equivalent risk. The key to their protection is the extent to which the CDFI, which controls the SPV in its entirety, responds to the needs of the unsecured lenders.

The following points pertain:

1. The CDFI maintains the first loss position as well as the senior position in claims on the assets of the SPV.
2. If a lender to CDFIs is secured by one or more of the CDFI's lending assets, this structure should not affect their security interest or their claim on the cash flows. The CDFI should do what is legally necessary to assure that their claims follow the asset.
3. The SPV is completely controlled by the CDFI. Payments to the CDFI are set by the CDFI and include: the 20 cents on the dollar in cash upstreamed to the CDFI, reimbursement for services provided, interest and principal paid on the 70 cent note to the CDFI, and dividends.
4. The claims of the preferred shareholder—which is the intermediary Platform—are subordinate to the senior debt of the SPV owed to the CDFI (the 70 cents). The CDFI assures its unsecured lenders that the proceeds of their loans are part of that senior debt at the SPV. Hence the claims are subordinate to the claims of the CDFI's lenders, including the unsecured lenders.
5. The CDFI can choose to obligate the SPV to adhere to the terms and conditions of the lenders and grantor agreements by way of becoming a signatory to them.
6. The CDFI can use the SPV only for the purposes of sourcing new loans, while keeping the existing loans and their capitalization intact.

At this point, unless the CDFI wishes to become a for-profit, the creation of this kind of for-profit special purpose vehicle is the only way to get true equity from the capital markets into a CDFI on a sustainable "flow" basis.

Appendix G

Good Bank, Bad Bank—Or Maximization of Grant Capital?

Does the proposed market-sourced equity program end up creating a "good bank/bad bank" choice for a CDFI, which reduces the flow of non-conventional credit to low-income borrowers? No. Possible, yes, but unlikely. It is much more likely that the contrary will occur. In the following exercise we show a CDFI how and why the incentives favor expansion of non-conventional as well as conventional loans to low-income borrowers. We show how this program can optimize scarce restricted grant resources.

We show a start-up CDFI in three different scenarios. **Scenario A** shows the CDFI making first mortgages and second mortgages without the benefit of using the proposed preferred stock program. Scenario B shows the CDFI using the preferred stock program. It does exactly the same loan volume for both the first and second mortgages, and gets the same level of operating and capital grants. As the results below show, **Scenario B** produces significant improvements in liquidity (cash and investments), leverage, debt, ability to service debt, and net assets. We then create a **Scenario C** in which the CDFI uses the preferred stock and doubles the number of second mortgages it makes, while leaving the first mortgage volume the same. Despite the doubling of volume in the second mortgage segment, **Scenario C** still comes out with significant improvements in liquidity, leverage, debt, ability to service debt, and net assets.

KEY INDICATORS AT THE END OF 7 YEARS FROM INCEPTION								
Scenarios	Net Assets	Debt	Debt/Net Assets	1st Mortgages	2nd Mortgages	Cash & Investments	Surplus	Yrs to Repay Debt
Scenario A No Preferred	$2,774,360	$10,900,000	3.96	$13,600,000	$1,260,000	$655,626	$774,360	15
Scenario B With Preferred	$5,222,878	$9,400,000	1.82	$13,600,000	$1,260,000	$1,604,144	$502,878	6
Scenario C Preferred and Twice the $ in 2nd Mortgages	$5,520,254	$10,100,000	1.94	$13,600,000	$2,520,000	$1,316,049	$532,504	8

What we will see when we go through the details is that the presence of the market-sourced equity reduces the need for grant support for the more conventional loans (first mortgages), and thereby increases the availability of grant resources for the kinds of credit that cannot be financed any other way (in this case, second mortgages). While the preferred stock is going to be more expensive than the debt as well as the grants they replace, the impact is reduced by the amount of liquid earning assets that the CDFI is able retain as well as the blended cost of capital. Of at least equal importance is the reduced pressure on cash flow when debt amortization kicks in. Another way to look at it is that for every dollar of preferred stock that is issued, a dollar of restricted capital grants and/or unrestricted operating grants is saved.

Key Assumptions for the Three Scenarios

We have a start-up CDFI with $2,000,000 in total assets, of which $100,000 is in cash, $400,000 is in unrestricted investments, and $1,500,000 is in restricted investments (the sources are restricted to capitalizing loans and providing homeownership counseling). There is no debt. Net Assets consists of $1,500,000 in restricted sources and $500,000 in restricted sources.

We have the same assumptions for each of the following:

- There are 68 30-year fixed rate first mortgages amounting to $13,600,000 at a rate of 3.5%, with an average charge-off rate of 1%.
- There are 42 20-year fixed rate 2nd mortgages amounting to $1,260,000 at a rate of 6% with an average charge-off rate of 2.5%. Scenario C doubles the number of loans originated.
- There is an overall delinquency rate of 4%.
- The (long-term) investment rate is 1%.
- Long-term debt is borrowed at a rate of 3%. The loans are structured as 5-year bullets, amortizing in full at the end of the fifth year.
- The preferred stock has a dividend of 6%.
- There are 1-1.5 lending staff and total operating expenses starting at $392,700 per year inflating at 2% a year.
- Accounts payable (free funding) are 18.5% of operating expenses.
- The CDFI receives $200,000 a year in operating grants and $300,000 a year in capital grants (restricted to capitalization of loans and homeownership counseling).

Where the Scenarios differ: Scenario A relies entirely on its restricted sources to capitalize the loans it originates. It capitalizes first mortgages at 20% and second mortgages at 25% of the total with the remainder being financed by long-term debt. This results in increasingly large amounts of cash being deployed from the restricted sources for the purpose of lending. This growth reduces the amount of sourcing that is available for release for other purposes—such as homeownership counseling. In order to conserve cash, Scenario A is forced to release restricted sources at a comparatively low level—$75,000 per year—and to borrow more. The result is an accelerated diminution of cash, an accelerated leverage—approaching 4:1—and a decreasing capacity to service the debt. Indeed, at the end of 7 years, Scenario A has a cash flow capacity to service its debt only over a 15-year period—when the average life of its borrowings is 5 years. This sort of mismatch is not sustainable.

Because Scenarios B and C capitalize the first mortgages entirely with the preferred stock, they free up the CDFI's restricted funds to be deployed only for the smaller second mortgages. This allows space for releasing much more of the restricted funds for other purposes like homeownership counseling: the CDFI now has room to release funds at a rate of $300,000 per year, up from $75,000. Moreover, both Scenarios B and C show cash and investments well in excess of $1 million at the end of the period, as against the rapidly declining and soon to be depleted reserves in Scenario A.

There are quite a few additional moving parts in establishing whether the preferred stock works or not: loan pricing, staffing, the nature of restrictions, debt maturities, and the cost of fund-raising to name just a few. We can provide a simple annual calculator for running these scenarios, with a manual, if desired. In Phase II, we will provide a program that enables the same kind of what-if analysis on a more detailed quarterly basis, for the purpose of establishing budgets. Both are derived from the Sustainable Mission System programs developed by Carsey, and they come with manuals.

Key Indicators Scenarios A and B

SCENARIO A: WITHOUT THE PREFERRED								
KEY INDICATORS AND FUNDING CHO		2021	2022	2023	2024	2025	2026	2027
Total Assets: Gross Operating Yield	1	2.467%	3.025%	3.490%	3.885%	4.071%	4.214%	4.326%
Operating Expense/Avg. Assets	2	16.181%	11.897%	8.951%	6.799%	5.289%	4.266%	3.535%
Cost of Funds (to Average Assets)	3	0.402%	0.980%	1.430%	1.774%	2.025%	2.199%	2.326%
Charge-offs to Avg. Assets	4	0.414%	0.670%	0.863%	1.019%	1.115%	1.188%	1.245%
Key Asset Diagnostic Indicators								
Loans: Total Yield	5	9.43%	5.93%	5.32%	5.07%	4.79%	4.62%	4.50%
Net Interest Margin (Loan Rate-Debt Ra	6	4.37%	2.12%	1.73%	1.57%	1.39%	1.28%	1.21%
Loan Portfolio	7	844,964	1,880,445	3,288,972	5,247,149	7,544,916	10,167,951	13,101,655
Total Assets	8	2,853,780	3,879,859	5,248,666	7,010,377	9,064,774	11,263,336	13,757,281
Total Net Assets	9	2,130,148	2,254,755	2,372,060	2,482,239	2,585,073	2,682,041	2,774,360
Staff Stress								
Total Loan Volume/Staff	10	7.00	9.00	12.00	16.00	19.00	22.00	25.00
Trip Wires								
Total Debt	11	650,000	1,550,000	2,800,000	4,450,000	6,400,000	8,500,000	10,900,000
Total Liabilities/Net Assets	12	0.34	0.72	1.21	1.82	2.51	3.20	3.96
Target Liabilities/Net Assets	13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unrestricted Investments	14	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Restricted Investments	15	1,542,500	1,537,500	1,445,000	1,225,000	917,500	522,500	40,000
The Bottom Line								
Net Surplus (Deficit)	16	130,148	124,607	117,305	110,179	102,834	96,968	92,319
Ending Cash	17	66,316	61,914	114,694	138,229	202,358	172,885	215,626
Years to Repay Debt	18	3	5	8	11	13	14	15

One striking difference: lines 11 and 12. Scenario A is where a number of CDFIs are today. Sooner or later, they exceed their target leverage. Scenario B is where they could be instead. Line 18 is more alarming: in A, it takes 15 years for the free cash flow to pay off the debt. Lines 15 and 17 are also a problem—no cash and investments.

SCENARIO B: WITH THE PREFERRED								
KEY INDICATORS AND FUNDING CHO		2021	2022	2023	2024	2025	2026	2027
Total Assets: Gross Operating Yield	1	2.505%	3.102%	3.567%	3.914%	4.034%	4.106%	4.147%
Operating Expense/Avg. Assets	2	16.520%	12.295%	9.185%	6.835%	5.198%	4.102%	3.331%
Cost of Funds (to Average Assets)	3	3.239%	2.772%	2.659%	2.798%	2.876%	2.899%	2.916%
Charge-offs to Avg. Assets	4	0.422%	0.692%	0.886%	1.025%	1.096%	1.143%	1.173%
Key Asset Diagnostic Indicators								
Loans: Total Yield	5	9.43%	5.93%	5.32%	5.07%	4.79%	4.62%	4.50%
Net Interest Margin (Loan Rate-Debt Ra	6	4.37%	2.12%	1.73%	1.57%	1.39%	1.28%	1.21%
Loan Portfolio	7	844,964	1,880,445	3,288,972	5,247,149	7,544,916	10,167,951	13,101,655
Total Assets	8	2,754,329	3,761,187	5,134,943	7,059,861	9,295,351	11,844,005	14,705,799
Total Net Assets	9	2,280,697	2,586,083	2,958,337	3,431,723	3,965,650	4,562,710	5,222,878
Staff Stress								
Total Loan Volume/Staff	10	7.00	9.00	12.00	16.00	19.00	22.00	25.00
Trip Wires								
Total Debt	11	400,000	1,100,000	2,100,000	3,550,000	5,250,000	7,200,000	9,400,000
Total Liabilities/Net Assets	12	0.21	0.45	0.74	1.06	1.34	1.60	1.82
Target Liabilities/Net Assets	13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unrestricted Investments	14	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Restricted Investments	15	1,477,500	1,447,500	1,410,000	1,365,000	1,312,500	1,252,500	1,185,000
The Bottom Line								
Net Surplus (Deficit)	16	120,697	105,386	92,254	73,387	53,926	37,061	20,168
Ending Cash	17	31,865	33,242	35,971	47,713	37,935	23,554	19,144
Years to Repay Debt	18	1	2	3	4	5	5	6

SCENARIO A: WITHOUT THE PREFERRED								
OPERATING STATEMENT		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Investment Income	19	19,213	19,400	18,913	17,350	14,713	11,200	6,813
Loan Interest Income	20	33,090	74,203	130,062	207,248	298,309	402,852	520,466
Less Cost of Delinquency	21	(1,324)	(2,968)	(5,202)	(8,290)	(11,932)	(16,114)	(20,819)
Operating Grants	22	200,000	200,000	200,000	200,000	200,000	200,000	200,000
New Restricted Grants	23	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Origination Fees	24	8,900	11,200	15,500	21,800	26,100	30,400	34,700
Total Revenues	25	559,879	601,834	659,272	738,108	827,189	928,338	1,041,160
Operating Expense	26	392,700	400,554	408,565	416,736	425,071	433,573	442,244
Servicing Fees Paid	27	0	0	0	0	0	0	0
Interest Expense	28	9,750	33,000	65,250	108,750	162,750	223,500	291,000
Loss Expense	29	27,281	43,674	68,152	102,443	136,534	174,298	215,597
Total Expenses	30	429,731	477,228	541,967	627,929	724,355	831,370	948,841
Prf Stck Divs (incl. SPV tax)	31	0	0	0	0	0	0	0
Net Surplus (Deficit)	32	130,148	124,607	117,305	110,179	102,834	96,968	92,319

Scenario A generates a higher surplus (line 32). That is almost entirely the result of cost of the preferred dividend (which also includes income taxes paid for the subsidiary SPV in line 31). The decline in the surplus is more pronounced in B, due to these dividends. But these higher costs provide significant benefits, as we shall see on the balance sheet. Note that net income pre-preferred dividend in Scenario B is higher than net income in Scenario A.

SCENARIO B: WITH THE PREFERRED								
OPERATING STATEMENT		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Investment Income	19	18,888	18,625	18,288	17,875	17,388	16,825	16,188
Loan Interest Income	20	33,090	74,203	130,062	207,248	298,309	402,852	520,466
Less Cost of Delinquency	21	(1,324)	(2,968)	(5,202)	(8,290)	(11,932)	(16,114)	(20,819)
Operating Grants	22	200,000	200,000	200,000	200,000	200,000	200,000	200,000
New Restricted Grants	23	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Origination Fees	24	8,900	11,200	15,500	21,800	26,100	30,400	34,700
Total Revenues	25	559,554	601,059	658,647	738,633	829,864	933,963	1,050,535
Operating Expense	26	392,700	400,554	408,565	416,736	425,071	433,573	442,244
Servicing Fees Paid	27	0	0	0	0	0	0	0
Interest Expense	28	6,000	22,500	48,000	84,750	132,000	186,750	249,000
Loss Expense	29	27,281	43,674	68,152	102,443	136,534	174,298	215,597
Total Expenses	30	425,981	466,728	524,717	603,929	693,605	794,620	906,841
Prf Stck Divs (incl. SPV tax)	31	12,876	28,946	41,676	61,318	82,333	102,282	123,526
Net Surplus (Deficit)	32	120,697	105,386	92,254	73,387	53,926	37,061	20,168

SCENARIO A: WITHOUT THE PREFERRED								
BALANCE SHEET		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Cash	33	66,316	61,914	114,694	138,229	202,358	172,885	215,626
Unrestricted Investments	34	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Restricted Investments	35	1,542,500	1,537,500	1,445,000	1,225,000	917,500	522,500	40,000
Loans	36	862,208	1,918,821	3,356,094	5,354,233	7,698,894	10,375,460	13,369,035
Loss Reserve	37	(17,244)	(38,376)	(67,122)	(107,085)	(153,978)	(207,509)	(267,381)
Net Loans	38	844,964	1,880,445	3,288,972	5,247,149	7,544,916	10,167,951	13,101,655
Total Assets	39	2,853,780	3,879,859	5,248,666	7,010,377	9,064,774	11,263,336	13,757,281
Accounts Payable	40	73,631	75,104	76,606	78,138	79,701	81,295	82,921
Current Liabilities	41	73,631	75,104	76,606	78,138	79,701	81,295	82,921
Long Term Debt	42	650,000	1,550,000	2,800,000	4,450,000	6,400,000	8,500,000	10,900,000
Total Liabilities	43	723,631	1,625,104	2,876,606	4,528,138	6,479,701	8,581,295	10,982,921
Unrestricted Net Assets	44	905,148	804,755	697,060	582,239	460,073	332,041	199,360
Restricted Net Assets	45	1,225,000	1,450,000	1,675,000	1,900,000	2,125,000	2,350,000	2,575,000
Preferred Stock Issued	46	0	0	0	0	0	0	0
Total Net Assets	47	2,130,148	2,254,755	2,372,060	2,482,239	2,585,073	2,682,041	2,774,360
Total Liabilities & Net Assets	48	2,853,780	3,879,859	5,248,666	7,010,377	9,064,774	11,263,336	13,757,281

Line 35 shows one of the big distinctions: under A, the CDFI must spend down its grant funds in order to deploy capital for lending and release cash for programs. It is a hand to mouth, year to year financing strategy which routinely constrains the mission. While the growth in net assets is solid in A (line 47), it is not sufficient to make up for the loss of grant funding and liquidity. Essentially, the growth in surplus is insufficient to sustain the target level of growth. The opposite holds true for Scenario B: here, the cash and investments remain above $1.5mm, while the net assets grow to over $5mm. There is plenty of balance sheet room for growth.

SCENARIO B: WITH THE PREFERRED								
BALANCE SHEET		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Cash	33	31,865	33,242	35,971	47,713	37,935	23,554	19,144
Unrestricted Investments	34	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Restricted Investments	35	1,477,500	1,447,500	1,410,000	1,365,000	1,312,500	1,252,500	1,185,000
Loans	36	862,208	1,918,821	3,356,094	5,354,233	7,698,894	10,375,460	13,369,035
Loss Reserve	37	(17,244)	(38,376)	(67,122)	(107,085)	(153,978)	(207,509)	(267,381)
Net Loans	38	844,964	1,880,445	3,288,972	5,247,149	7,544,916	10,167,951	13,101,655
Total Assets	39	2,754,329	3,761,187	5,134,943	7,059,861	9,295,351	11,844,005	14,705,799
Accounts Payable	40	73,631	75,104	76,606	78,138	79,701	81,295	82,921
Current Liabilities	41	73,631	75,104	76,606	78,138	79,701	81,295	82,921
Long Term Debt	42	400,000	1,100,000	2,100,000	3,550,000	5,250,000	7,200,000	9,400,000
Total Liabilities	43	473,631	1,175,104	2,176,606	3,628,138	5,329,701	7,281,295	9,482,921
Unrestricted Net Assets	44	1,120,697	1,226,083	1,318,337	1,391,723	1,445,650	1,482,710	1,502,878
Restricted Net Assets	45	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Preferred Stock Issued	46	160,000	360,000	640,000	1,040,000	1,520,000	2,080,000	2,720,000
Total Net Assets	47	2,280,697	2,586,083	2,958,337	3,431,723	3,965,650	4,562,710	5,222,878
Total Liabilities & Net Assets	48	2,754,329	3,761,187	5,134,943	7,059,861	9,295,351	11,844,005	14,705,799

SCENARIO A: WITHOUT THE PREFERRED								
CASH FLOW		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Beginning Cash	49	100,000	66,316	61,914	114,694	138,229	202,358	172,885
Net Surplus from Operations	50	130,148	124,607	117,305	110,179	102,834	96,968	92,319
New Restricted Grants	51	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Preferred Stock Issued	52	0	0	0	0	0	0	0
Restricted Net Assets Released	53	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Provision for Losses	54	27,281	43,674	68,152	102,443	136,534	174,298	215,597
Total Sources from Ops	55	(67,571)	(56,720)	(39,543)	(12,378)	14,368	46,265	82,916
New Loan Volume (Less C-offs)	56	(890,000)	(1,120,000)	(1,550,000)	(2,180,000)	(2,610,000)	(3,040,000)	(3,470,000)
Incr/Decr Unrestricted Invstmts	57	0	0	0	0	0	0	0
Restricted Balance Deployed	58	182,500	230,000	317,500	445,000	532,500	620,000	707,500
Accounts Payable	59	73,631	1,473	1,502	1,532	1,563	1,594	1,626
Total /Balance Sheet Uses	60	(633,869)	(888,527)	(1,230,998)	(1,733,468)	(2,075,937)	(2,418,406)	(2,760,874)
Net Operating Sources/Uses	61	(701,440)	(945,247)	(1,270,541)	(1,745,846)	(2,061,569)	(2,372,141)	(2,677,958)
Loan Principal Repayments	62	17,756	40,845	73,321	119,381	175,698	242,668	320,699
New Long Term Debt: Amort	63	0	0	0	0	(650,000)	(900,000)	(1,250,000)
New Long Term Debt	64	650,000	900,000	1,250,000	1,650,000	2,600,000	3,000,000	3,650,000
Total Balance Sheet Sources	65	667,756	940,845	1,323,321	1,769,381	2,125,698	2,342,668	2,720,699
Change in Cash	66	(33,684)	(4,402)	52,780	23,534	64,129	(29,473)	42,741
Ending Cash	67	66,316	61,914	114,694	138,229	202,358	172,885	215,626

Again, the decline in surpluses in B is more pronounced than in A (line 50). But we also see that strength in cash flow—total sources for operations in line 55—is exactly the opposite. Debt amortization (line 63), which derives from A's higher reliance on debt funding, is also a major challenge.

SCENARIO B: WITH THE PREFERRED								
CASH FLOW		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Beginning Cash	49	100,000	31,865	33,242	35,971	47,713	37,935	23,554
Net Surplus from Operations	50	120,697	105,386	92,254	73,387	53,926	37,061	20,168
New Restricted Grants	51	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Preferred Stock Issued	52	160,000	200,000	280,000	400,000	480,000	560,000	640,000
Restricted Net Assets Released	53	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Provision for Losses	54	27,281	43,674	68,152	102,443	136,534	174,298	215,597
Total Sources from Ops	55	307,978	349,059	440,406	575,829	670,461	771,358	875,765
New Loan Volume (Less C-offs)	56	(890,000)	(1,120,000)	(1,550,000)	(2,180,000)	(2,610,000)	(3,040,000)	(3,470,000)
Incr/Decr Unrestricted Invstmts	57	0	0	0	0	0	0	0
Restricted Balance Deployed	58	22,500	30,000	37,500	45,000	52,500	60,000	67,500
Accounts Payable	59	73,631	1,473	1,502	1,532	1,563	1,594	1,626
Total /Balance Sheet Uses	60	(793,869)	(1,088,527)	(1,510,998)	(2,133,468)	(2,555,937)	(2,978,406)	(3,400,874)
Net Operating Sources/Uses	61	(485,891)	(739,468)	(1,070,592)	(1,557,639)	(1,885,477)	(2,207,048)	(2,525,109)
Loan Principal Repayments	62	17,756	40,845	73,321	119,381	175,698	242,668	320,699
New Long Term Debt: Amort	63	0	0	0	0	(400,000)	(700,000)	(1,000,000)
New Long Term Debt	64	400,000	700,000	1,000,000	1,450,000	2,100,000	2,650,000	3,200,000
Total Balance Sheet Sources	65	417,756	740,845	1,073,321	1,569,381	1,875,698	2,192,668	2,520,699
Change in Cash	66	(68,135)	1,377	2,729	11,742	(9,778)	(14,380)	(4,410)
Ending Cash	67	31,865	33,242	35,971	47,713	37,935	23,554	19,144

Here also we see how the deployment of grant funds in A (line 58) hamstrings all of its programs.

Scenario C: Doubling the Non-Conventional Loans

From the standpoint of financial condition, Scenario C is materially better than Scenario A. Leverage is half of what it is in A, there is adequate cash flow to service debt, and the CDFI is able remain much more liquid in terms of cash on hand and investments. But there is another critical factor: When we use the preferred stock to capitalize each of our conventional CDFI loans (in this case, residential first mortgages), we have more capital available for the non-conventional loans (in this case residential second mortgages), which are much more difficult to access in the communities CDFIs serve. We are able to make room not only for increased risk-taking with second mortgages, but the retention of cash in the restricted investment accounts enables us to release funds for other non-lending programs like homeownership counseling, which can generally only be funded by grants.

One of the other reasons this scenario actually looks better than our first Scenario A is that we have a higher spread over the expected credit losses for the second mortgage than for the first mortgage (3.5% vs. 2%) due to the increased uncertainty associated with the timing of liquidation and value of collateral. Reviewing pricing and aligning the product line not only for organizational needs as well as client needs is essential to a more layered and systematized financing platform.

It is not all favorable from risk adjusted financial performance to be sure. As we look at the key indicators in the scenario, we do notice that there is a declining trend in surpluses, the restricted investment account, and a steady rise in the leverage. We also see that the loan volume to staff ratio is higher and may require additional FTE that can alter the expense ratios. As with Scenario A, these trends are not sustainable. What is different is that there is time to adjust. Five or six years out would present a good time to pause and consider modest changes in pricing as a result of the introduction of longer-term patient funding, the allocation of asset types, the rate of growth, etc. From the standpoint of liquidity, A doesn't have that kind of time.

SCENARIO C: WITH THE PREFERRED AND DOUBLE THE # SUBORDINATE LOANS								
KEY INDICATORS AND FUNDING CHOIC		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Total Assets: Gross Operating Yield	1	2.725%	3.385%	3.879%	4.233%	4.345%	4.404%	4.431%
Operating Expense/Avg. Assets	2	16.345%	11.925%	8.832%	6.559%	4.978%	3.919%	3.176%
Cost of Funds (to Average Assets)	3	3.110%	2.730%	2.660%	2.805%	2.889%	2.919%	2.941%
Charge-offs to Avg. Assets	4	0.509%	0.821%	1.037%	1.183%	1.253%	1.296%	1.322%
Key Asset Diagnostic Indicators								
Loans: Total Yield	5	9.85%	6.24%	5.59%	5.30%	5.01%	4.83%	4.71%
Net Interest Margin (Loan Rate-Debt Ra	6	4.79%	2.43%	2.00%	1.81%	1.61%	1.50%	1.42%
Loan Portfolio	7	928,663	2,071,159	3,608,402	5,715,344	8,180,239	10,987,039	14,119,375
Total Assets	8	2,805,061	3,913,104	5,339,167	7,368,158	9,709,352	12,415,181	15,435,424
Total Net Assets	9	2,281,430	2,588,000	2,962,561	3,440,020	3,979,652	4,583,886	5,252,504
Staff Stress								
Total Loan Volume/Staff	10	10.00	13.00	17.00	22.00	26.00	30.00	34.00
Trip Wires								
Total Debt	11	450,000	1,250,000	2,300,000	3,850,000	5,650,000	7,750,000	10,100,000
Total Liabilities/Net Assets	12	0.23	0.51	0.80	1.14	1.44	1.71	1.94
Target Liabilities/Net Assets	13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unrestricted Investments	14	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Restricted Investments	15	1,455,000	1,395,000	1,320,000	1,230,000	1,125,000	1,005,000	870,000
The Bottom Line								
Net Surplus (Deficit)	16	121,430	106,570	94,561	77,459	59,631	44,235	28,617
Ending Cash	17	21,398	46,945	10,765	22,814	4,113	23,143	46,049
Years to Repay Debt	18	1	3	4	5	6	7	8

SCENARIO C: WITH THE PREFERRED AND DOUBLE THE # SUBORDINATE LOANS								
OPERATING STATEMENT		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Investment Income	19	18,775	18,250	17,575	16,750	15,775	14,650	13,375
Loan Interest Income	20	38,425	86,502	150,898	238,129	340,679	458,084	589,859
Less Cost of Delinquency	21	(1,537)	(3,460)	(6,036)	(9,525)	(13,627)	(18,323)	(23,594)
Operating Grants	22	200,000	200,000	200,000	200,000	200,000	200,000	200,000
New Restricted Grants	23	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Origination Fees	24	9,800	12,400	17,000	23,600	28,200	32,800	37,400
Total Revenues	25	565,463	613,692	679,437	768,954	871,027	987,210	1,117,039
Operating Expense	26	392,700	400,554	408,565	416,736	425,071	433,573	442,244
Servicing Fees Paid	27	0	0	0	0	0	0	0
Interest Expense	28	6,750	25,500	53,250	92,250	142,500	201,000	267,750
Loss Expense	29	31,179	50,904	79,322	118,133	157,297	200,653	248,032
Total Expenses	30	430,629	476,958	541,137	627,120	724,868	835,225	958,026
Prf Stck Divs (incl. SPV tax)	31	13,404	30,164	43,739	64,375	86,527	107,750	130,396
Net Surplus (Deficit)	32	121,430	106,570	94,561	77,459	59,631	44,235	28,617

The Surpluses (32) compare unfavorably with Scenario A where the surplus in the 7th year is $92,319. On the other hand, as we see on the balance sheet, cash and investments (lines 33-35) are dramatically higher in C ($1.3mm vs $0.66mm). The net assets (line 47) are also dramatically different: $5.2mm in C versus $2.8mm in A. As noted, the longevity for A is about a year without major new grant infusion.

SCENARIO C: WITH THE PREFERRED AND DOUBLE THE # SUBORDINATE LOANS								
BALANCE SHEET		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Cash	33	21,398	46,945	10,765	22,814	4,113	23,143	46,049
Unrestricted Investments	34	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Restricted Investments	35	1,455,000	1,395,000	1,320,000	1,230,000	1,125,000	1,005,000	870,000
Loans	36	947,615	2,113,427	3,682,042	5,831,983	8,347,183	11,211,264	14,407,526
Loss Reserve	37	(18,952)	(42,269)	(73,641)	(116,640)	(166,944)	(224,225)	(288,151)
Net Loans	38	928,663	2,071,159	3,608,402	5,715,344	8,180,239	10,987,039	14,119,375
Total Assets	39	2,805,061	3,913,104	5,339,167	7,368,158	9,709,352	12,415,181	15,435,424
Accounts Payable	40	73,631	75,104	76,606	78,138	79,701	81,295	82,921
Current Liabilities	41	73,631	75,104	76,606	78,138	79,701	81,295	82,921
Long Term Debt	42	450,000	1,250,000	2,300,000	3,850,000	5,650,000	7,750,000	10,100,000
Total Liabilities	43	523,631	1,325,104	2,376,606	3,928,138	5,729,701	7,831,295	10,182,921
Unrestricted Net Assets	44	621,430	728,000	822,561	900,020	959,652	1,003,886	1,032,504
Restricted Net Assets	45	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Preferred Stock Issued	46	160,000	360,000	640,000	1,040,000	1,520,000	2,080,000	2,720,000
Total Net Assets	47	2,281,430	2,588,000	2,962,561	3,440,020	3,979,652	4,583,886	5,252,504
Total Liabilities & Net Assets	48	2,805,061	3,913,104	5,339,167	7,368,158	9,709,352	12,415,181	15,435,424

One of the more important features of the preservation of cash that the preferred stock enables is the ability to more efficiently manage and expand the use of restricted funds. Because of the reliance on grant sources for all mission activities including capitalizing first mortgages, the amount that can be released for non-lending purposes is severely constricted. In Scenario A it is $75,000 per year. Under Scenario C, even with the doubling of grant fund deployment for capitalizing second mortgages (line 58 below), there is still $300,000 a year (line 53 below) that can be released for non-lending mission activity while still keeping the total cash and investments above $1 million in total.

SCENARIO C: WITH THE PREFERRED AND DOUBLE THE # SUBORDINATE LOANS								
CASH FLOW		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Beginning Cash	49	100,000	21,398	46,945	10,765	22,814	4,113	23,143
Net Surplus from Operations	50	121,430	106,570	94,561	77,459	59,631	44,235	28,617
New Restricted Grants	51	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Preferred Stock Issued	52	160,000	200,000	280,000	400,000	480,000	560,000	640,000
Restricted Net Assets Released	53	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Provision for Losses	54	31,179	50,904	79,322	118,133	157,297	200,653	248,032
Total Sources from Ops	55	312,609	357,474	453,883	595,592	696,928	804,888	916,649
New Loan Volume (Less C-offs)	56	(980,000)	(1,240,000)	(1,700,000)	(2,360,000)	(2,820,000)	(3,280,000)	(3,740,000)
Incr/Decr Unrestricted Invstmts	57	0	0	0	0	0	0	0
Restricted Balance Deployed	58	45,000	60,000	75,000	90,000	105,000	120,000	135,000
Accounts Payable	59	73,631	1,473	1,502	1,532	1,563	1,594	1,626
Total /Balance Sheet Uses	60	(861,369)	(1,178,527)	(1,623,498)	(2,268,468)	(2,713,437)	(3,158,406)	(3,603,374)
Net Operating Sources/Uses	61	(548,760)	(821,053)	(1,169,615)	(1,672,875)	(2,016,509)	(2,353,518)	(2,686,725)
Loan Principal Repayments	62	20,159	46,600	83,435	134,925	197,807	272,548	359,631
New Long Term Debt: Amort	63	0	0	0	0	(450,000)	(800,000)	(1,050,000)
New Long Term Debt	64	450,000	800,000	1,050,000	1,550,000	2,250,000	2,900,000	3,400,000
Total Balance Sheet Sources	65	470,159	846,600	1,133,435	1,684,925	1,997,807	2,372,548	2,709,631
Change in Cash	66	(78,602)	25,547	(36,180)	12,049	(18,701)	19,030	22,906
Ending Cash	67	21,398	46,945	10,765	22,814	4,113	23,143	46,049

Appendix H

Internal SPV Reporting

	THIS MONTH		YEAR TO DATE	ANNUAL BUDGET	THIS MONTH PRIOR YEAR	YEAR TO DATE PRIOR YEAR	ANNUAL BUDGET PRIOR YEAR
Loan Activity							
Loans Outstanding	$	#					
Loans Approved	$	#					
Loans Disbursed	$	#					
Loan Principal Repayments	$	% to Disbursed					
Revenue							
Interest Revenue	$	% to Loans					
Fee Revenue	$	% to Loans					
Other Loan Related Revenue	$	% to Loans					
Operating Expense							
Total Staff	$	#					
Management Staff	$	#					
Adminstrative Staff	$	#					
Lending Staff	$	#					
Servicing Staff	$	#					
Program Staff	$	#					
Staff Related Expenses	$	% to Staff $					
Professional Services	$	% to Loans O/S $					
Portfolio Services	$	% to Loans O/S $					
Transactional Services	$	% to Loan Volume $					
Production							
Applications Processed per Lender	$	#					
Renewals Processed per Lender	$	#					
Modifications per Lender	$	#					
Delinquent Loans per Servicer	$	#					
Defaulted Loans per Servicer	$	#					
Loan Portfolio (add sections per each Asset Class)							
Average Interest Rate		%					
Weighted Average Maturity		Years					
Prepayment	$	%					
Average Credit Score	Number	% of Loans O/S					
New Customers	$	#					
Existing Customers	$	#					
Growth	$	%					
Risk Management							
Total Modifications this Period	$	#					
Modified Loans Outstanding	$	#					
Loans with 1 Modification	$	#					
Loans with 2 Modifications	$	#					
Loans with > 3 Modifications	$	#					
Payment Status							
Total Loans Delinquent	$	% to Loans O/S $					
New Delinquencies this Period	$	#					
Defaults this Period	$	#					
30-59 Days Past Due	$	% to Loans O/S $					
60-89 Days Past Due	$	% to Loans O/S $					
90 Days + Past Due	$	% to Loans O/S $					
120 Days + Past Due	$	% to Loans O/S $					
Loans on Non-Accrual	$	% to Loans O/S $					
New Non-Accrual Loans this Period	$	% to Loans O/S $					
Loan Delinquent < 12 Mo from Origination	$	% to Loan Volume					
Loans in Workout	$	% to Loans O/S $					
Other Real Estate Owned	$	% to Loans O/S $					
Reserves							
Charge-offs	$	% to Loans O/S $					
Recoveries	$	% to C-Offs $					
Provision for Losses	$	% C-Offs/Provision					
Loss Reserve	$	% to Loans O/S $					
Loss Reserve Adequacy	% C-Off to LR	% Provision to LR					
Asset Valuation (add sections for each Asset Class)							
120 Days + Past Due	$Original Value	$Current Book Value					
Loans in Workout	$Original Value	$Current Book Value					
Loans on Non-Accrual	$Original Value	$Current Book Value					
Loans Liquidated	$Original Value	$Sale Price					
Liquidated Value	$	% Sale/Original Price					
Other Real Estate Owned	$Original Value	$Current Book Value					
Real Estate liquidated	$Original Value	$Sale Price					
Liquidated Value	$	% Sale/Original Price					

Appendix I

CDFI Data for Making the Rating Agency Case

l: CDFI INDUSTRY LOAN DATA FOR RATING AGENCIES

Size of CDFI Industry for last 7 years

- **Number and $ of CDFI Loan Funds**
- **Total, Average and Mean Assets**
- **Total, Average and Capital**
- **Total, Average and Cash and Marketable Securities**
- **Total, Average and Mean Loan Portfolios**
- **Total, Average and Mean Loan interest rate revenue % of total revenue**
- **Total, Average and Mean Loan fees % of total revrenue**
- **Total, Average and Mean grants % of total revrenue**
- **Total, Average and Mean Loan Sustainability Ratios**
- **Total, Average and Mean Surplus**
- **Total, Average and Mean Loan Delinquency rate**
- **Total, Average and Mean Loan Charge-offs**
- **Total, Average and Mean Loan Restructure/Modification rate**
- **Total, Average and Mean bank and institutional borrowing**
- **Total, Average and Mean interest rate on bank and institutional borrowing.**
- **Total, Average and Mean Debt default rate**
- **Total, Average and Mean FTE**
- **Total, Average and Mean FTE in lending and servicing**
- **Total, Average and Mean loans per lending and servicing FTE**

Breakdown by Size and Experience

- **Assets > $50mm # $**
  - Same calculations as in CDFI Industry above
- **Assets > $20mm**
  - Same calculations as in CDFI Industry above
- **In business > 10 years # $**
  - Same calculations as in CDFI Industry above

Loan Portfolio Size, Total, Mean, Average and by $50mm and $20mm in size, > 10 years in business

- **(1) Home Mortgage (2) Small Business (3) Multifamily (4) Commercial Real Estate (5) Community Facility (6) Construction/Development # $.**
  - Avg Size
  - Avg Term
  - Avg Rate
  - Avg downpayment or minimum borrower equity
  - LTV
  - DSC or Interest Coverage
  - Credit Score
  - Age or years in business
  - Avg Household Income or business revenue
  - Delinquency rate
  - Charge-off rate
  - Recovery rate
  - Restructure/modification rate

CDFI INDUSTRY FAILURE RATE AND ATTRIBUTES

How many Loan Funds have been certified as CDFIs?

- **D&Bs**
- **Assets > $50mm # $**
- **Assets > $20mm # $**
- **In business > 10 years # $**

How many Loan Funds are still certified as CDFIs?

- **D&Bs**
- **Assets > $50mm # $**
- **Assets > $20mm # $**
- **In business > 10 years # $**

How many Loan Funds have been decertified

- **Due to failure to comply with demographic requirements**
- **Due to merger/acquisition**
  - D&Bs
  - Assets> $50mm
  - Assets > $20mm
  - In business > 10 years
  - Names and Addresses
  - What are their D&Bs
  - Total Asset Size
  - What kinds of loans # $:
    - Home mortgages
    - Small Business
    - Multifamily
    - Commerical real estate
    - Community Facilities
    - Development/Construction loans
- **Due to liquidation?**
  - D&Bs
  - Assets> $50mm
  - Assets > $20mm
  - In business > 10 years
  - Names and Addresses
  - What are their D&Bs
  - Total Asset Size
  - Sustainability Ratio
  - Capital
  - Surplus
  - What kinds of loans:
    - Home mortgages
    - Small Business
    - Multifamily
    - Commerical real estate
    - Community Facilities
    - Development/Construction loans
  - Loan structures: Monthly P&I, Bullet, Balloon, IO/Amort
  - # and $ of Loan portfolio
  - Total FTE Staff
  - Total lending/servicing FTE
  - FTE Staff and Management turnover
  - Avg Size of loans by type
  - Avg. Maturity of loans by type
  - Avg. LTV for loans by type
  - Avg. Credit Score for loans by type
  - Avg. Avg. DSC or Interest Coverage for loans by type
  - Avg. Age of business, developer years in business
  - Rates of delinquency, charge-off, restructure/modification, recovery
  - Liquidation Value of the loan portfolio
  - Loss by creditors (Liabilities minus proceeds from asset liquidation)

Appendix J

Pro Forma Financials for the Source LP and the CDFI Equity Fund

Pro Formas for the Source LP

Below are the aggregated Operating Statement, Balance Sheet, and Cash Flow for all of the SPVs combined. The assumptions for all of the line items—loan terms, volume, staff cost, borrowing structure and cost, etc.—are all found in the individual SPV forecasts.

SOURCE FINANCIAL STATEMENTS: LP/LLC

OPERATING STATEMENT		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Income from Marketable Securities	1		$89,000	$158,000	$233,000	$310,500	$248,500	$242,250	$309,500	$317,750	$311,750	$282,750
Income from SPV Preferred Stock	2		$1,261,958	$2,595,332	$3,834,351	$4,999,017	$5,441,123	$7,002,824	$8,132,866	$9,258,002	$10,411,576	$10,536,106
Other Revenues	3		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenues	4		$1,350,958	$2,753,332	$4,067,351	$5,309,517	$5,689,623	$7,245,074	$8,442,366	$9,575,752	$10,723,326	$10,818,856
Staff Expense	5		$662,177	$675,421	$688,929	$702,708	$716,762	$731,097	$745,719	$760,634	$775,846	$791,363
Staff related Expenses	6		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Trade Expenses	7		$52,582	$108,139	$159,765	$208,292	$226,713	$291,784	$338,869	$385,750	$433,816	$439,004
Professional Fees	8		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
SPV UBTI Tax Expenses			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Expenses	9		$127,500	$130,050	$132,651	$135,304	$138,010	$140,770	$143,586	$146,457	$149,387	$152,374
Operating Expenses	10		$842,259	$913,610	$981,345	$1,046,304	$1,081,486	$1,163,652	$1,228,174	$1,292,841	$1,359,049	$1,382,742
Net Operating Profit			$508,699	$1,839,723	$3,086,006	$4,263,213	$4,608,137	$6,081,422	$7,214,192	$8,282,911	$9,364,277	$9,436,114
Interest Expense	11		$0	$0	$0	$1,000,000	$1,000,000	$2,000,000	$1,801,329	$2,401,996	$3,003,327	$3,003,329
Total Expenses	12		$842,259	$913,610	$981,345	$2,046,304	$2,081,486	$3,163,652	$3,029,503	$3,694,837	$4,362,375	$4,386,071
Net Profit before Tax and Disrtributions	13		$508,699	$1,839,723	$3,086,006	$3,263,213	$3,608,137	$4,081,422	$5,412,863	$5,880,915	$6,360,950	$6,432,785
Gains/(Losses) on Sales in Investment Portfolio	14											
Net Profit before Tax and Distributions	15		$508,699	$1,839,723	$3,086,006	$3,263,213	$3,608,137	$4,081,422	$5,412,863	$5,880,915	$6,360,950	$6,432,785
Tax Distribution for Preferred Interests	16		$27,978	$92,610	$140,466	$169,394	$198,448	$224,478	$297,707	$375,620	$446,268	$477,223
Tax Distribution for Common Interests	17		$139,892	$514,499	$877,915	$907,467	$992,238	$1,122,391	$1,488,537	$1,565,082	$1,652,845	$1,645,596
SOURCE Preferred Distributions (net of taxes)	18		$272,022	$447,390	$579,534	$670,606	$701,552	$675,522	$902,293	$1,064,380	$1,173,732	$1,262,777
SOURCE Common Distributions (net of taxes)	19		$43,372	$693,238	$1,333,790	$1,352,586	$1,535,492	$1,650,889	$2,183,039	$2,287,741	$2,452,010	$2,403,911
Net Profit Retained after Distributions	20		$25,435	$91,986	$154,300	$163,161	$180,407	$408,142	$541,286	$588,091	$636,095	$643,279
Net Operating Profit to Revenues	21		37.65%	66.82%	75.87%	80.29%	80.99%	83.94%	85.45%	86.50%	87.33%	87.22%
Net Profit Before Tax and Dist to Revenues	22		37.65%	66.82%	75.87%	61.46%	63.42%	56.33%	64.12%	61.41%	59.32%	59.46%
Net Profit After Imputed Tax to Revenues	23		25.23%	44.77%	50.83%	41.18%	42.49%	37.74%	42.96%	41.15%	39.74%	39.84%
Net Profit After Tax and Dist to Revenues	24		1.88%	3.34%	3.79%	3.07%	3.17%	5.63%	6.41%	6.14%	5.93%	5.95%
Retained Earnings	25		$25,435	$117,421	$271,721	$434,882	$615,289	$1,023,431	$1,564,717	$2,152,809	$2,788,904	$3,432,182
Rate of Growth in Retained Earnings	26			361.65%	131.41%	60.05%	41.48%	66.33%	52.89%	37.58%	29.55%	23.07%
Dividend Yield on Commons Before Tax	27		0.73%	2.42%	2.95%	3.01%	3.37%	3.70%	3.67%	3.85%	4.10%	4.05%
Dividend Yield on Commons After Tax (Net)	28		0.17%	1.39%	1.78%	1.80%	2.05%	2.20%	2.18%	2.29%	2.45%	2.40%
Earnings per Share (Common)	29		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Yield on SOURCE Preferred Dividends (Gross)	30		6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

The SPV Preferred Stock in lines 46 and 47 below represent the balance of preferred stock investment in all of the SPVs made by the Source LP at the end of each year. The Source controlled preferreds are those which the Source has the right to mandate for redemption. It is not necessary to use this in this forecast.

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Cash	31		$87,778	$33,105	$14,537	$26,418	$52,891	$30,661	$13,961	$40,869	$83,656	$3,585,841
Marketable Securities	32		$8,900,000	$15,800,000	$23,300,000	$31,050,000	$24,850,000	$24,225,000	$30,950,000	$31,775,000	$31,175,000	$28,275,000
Accounts Receivable	33		$135,096	$275,333	$406,735	$530,952	$568,962	$724,507	$844,237	$957,575	$1,072,333	$1,081,886
Current Assets	34		$9,122,873	$16,108,438	$23,721,273	$31,607,370	$25,471,853	$24,980,169	$31,808,198	$32,773,445	$32,330,989	$32,942,727
Investment in SPV Preferred Interest - SOURCE Controlled	35		$2,103,263	$4,325,554	$6,390,584	$8,331,696	$9,965,426	$11,671,373	$13,554,777	$15,430,003	$17,352,626	$19,296,898
Investment in SPV Preferred Interest - SPV Controlled			$18,929,363	$38,929,985	$57,515,260	$74,985,260	$80,719,952	$105,042,361	$121,992,991	$138,870,026	$156,173,634	$156,304,872
Other Assets	36		$42,065	$86,511	$127,812	$166,634	$199,309	$233,427	$271,096	$308,600	$347,053	$385,938
Total Assets	37		$30,197,564	$59,450,488	$87,754,929	$115,090,960	$116,356,539	$141,927,330	$167,627,061	$187,382,074	$206,204,302	$208,930,435
Taxes Payable	38		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
SPV UBTI Taxes Payable	39		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest Payable	40		$0	$0	$0	$82,500	$82,500	$165,000	$148,610	$198,165	$247,774	$247,775
Dividends Payable	41		$26,020	$94,102	$157,849	$166,913	$184,556	$191,929	$254,540	$276,550	$299,124	$302,502
Other Accounts Payable	42		$9,004	$11,909	$14,621	$17,180	$18,236	$21,628	$24,123	$26,610	$29,160	$29,569
Accrued Expenses	43		$52,974	$54,034	$55,114	$56,217	$57,341	$58,488	$59,658	$60,851	$62,068	$63,309
Short Term Debt	44		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CPLTD	45		$0	$0	$0	$0	$0	$4,966,778	$4,983,334	$9,966,722	$9,999,945	$14,006,700
Current Liabilities	46		$87,998	$160,045	$227,584	$322,810	$342,633	$5,403,822	$5,470,263	$10,528,898	$10,638,071	$14,649,854
Long Term Debt	47		$0	$0	$0	$25,000,000	$25,000,000	$45,033,222	$40,049,889	$50,083,167	$65,083,222	$61,076,522
Other Liabilities	48		$84,131	$173,022	$255,623	$333,268	$398,617	$466,855	$542,191	$617,200	$694,105	$771,876
Total Liabilities	49		$172,129	$333,067	$483,208	$25,656,078	$25,741,250	$50,903,899	$46,062,343	$61,229,265	$76,415,398	$76,498,252
SOURCE Preferred Interests	50		$5,000,000	$9,000,000	$12,000,000	$14,000,000	$15,000,000	$15,000,000	$20,000,000	$24,000,000	$27,000,000	$29,000,000
SOURCE Common Interests	51		$25,000,000	$50,000,000	$75,000,000	$75,000,000	$75,000,000	$75,000,000	$100,000,000	$100,000,000	$100,000,000	$100,000,000
Retained Earnings	52		$25,435	$117,421	$271,721	$434,882	$615,289	$1,023,431	$1,564,717	$2,152,809	$2,788,904	$3,432,182
Total Equity	53		$30,025,435	$59,117,421	$87,271,721	$89,434,882	$90,615,289	$91,023,431	$121,564,717	$126,152,809	$129,788,904	$132,432,182
Total Liabilities & Equity	54		$30,197,564	$59,450,488	$87,754,929	$115,090,960	$116,356,539	$141,927,330	$167,627,061	$187,382,074	$206,204,302	$208,930,435
Reconciliation			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Ratio	55		103.67	100.65	104.23	97.91	74.34	4.62	5.81	3.11	3.04	2.25
Quick Ratio	56		102.14	98.93	102.44	96.27	72.68	4.49	5.66	3.02	2.94	2.17
Debt to Equity	57		0.00%	0.00%	0.00%	27.95%	27.59%	54.93%	37.04%	47.60%	57.85%	56.70%
Total Liabilities to Total Equity	58		0.57%	0.56%	0.55%	28.69%	28.41%	55.92%	37.89%	48.54%	58.88%	57.76%
Book Value SPV Preferreds $	59		$21,032,625	$43,255,539	$63,905,845	$83,316,956	$90,685,378	$116,713,734	$135,547,767	$154,300,029	$173,526,260	$175,601,770
Book Value SOURCE Preferreds $	60		$5,000,000	$9,000,000	$12,000,000	$14,000,000	$15,000,000	$15,000,000	$20,000,000	$24,000,000	$27,000,000	$29,000,000
SOURCE Preferred % to SPV Preferred	61		23.77%	20.81%	18.78%	16.80%	16.54%	12.85%	14.75%	15.55%	15.56%	16.51%
SOURCE Preferred % to Total Equity	62		16.65%	15.22%	13.75%	15.65%	16.55%	16.48%	16.45%	19.02%	20.80%	21.90%
SOURCE Preferred % to Total Assets	63		16.56%	15.14%	13.67%	12.16%	12.89%	10.57%	11.93%	12.81%	13.09%	13.88%
SOURCE Common Equity % Total Equity	64		83.35%	84.78%	86.25%	84.35%	83.45%	83.52%	83.55%	80.98%	79.20%	78.10%
SOURCE Common Equity % Total Assets	65		82.87%	84.30%	85.77%	65.54%	64.99%	53.57%	60.59%	54.52%	49.85%	49.51%

The Class A Stock is the 10% of equity that the CDFI puts into the SPV. It is always 50% of the amount of SPV Preferred that the Source LP purchases. The Class B is issued by the SPV and purchased by the CDFI only when the SPV generates a loss after paying distributions (LLC) or paying taxes and dividends (if a C-Corp). The CDFI replaces that loss and brings leverage back into line by purchasing SPV Class B.

Pro Formas for the CDFI Equity Fund

The assumption is that the Source LP, which was slated to start in 2021 assuming the Source LP is established and funded in 2021, would be rating-ready at the very latest by 2030 or 10 years after Source LP is operational, and that the C-Corp CDFI Equity Fund would be established in 2031. This is a conservative estimate: if the performance of the loans and the portfolios continue as they have in the past—but now with standardized systematic reporting on the platform—achieving the A rating on a preferred issue could occur earlier, perhaps as early as 2027, and the CDFI Equity Fund could be established in 2028.

CDFI EQUITY FUND FINANCIAL STATEMENTS

OPERATING STATEMENT		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Income from Marketable Securities	1	$481,000	$188,250	$189,000	$184,000	$190,750	$202,750	$262,750	$250,000	$273,000	$278,000
Income from SPV Preferred Stock	2	$3,381,667	$6,728,687	$9,439,730	$11,960,703	$14,098,723	$16,382,095	$18,874,914	$21,469,371	$24,279,251	$27,325,225
Other Revenues	3	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenues	4	$3,862,667	$6,916,937	$9,628,730	$12,144,703	$14,289,473	$16,584,845	$19,137,664	$21,719,371	$24,552,251	$27,603,225
Staff Expense	5	$891,677	$909,511	$927,701	$946,255	$965,180	$984,484	$1,004,174	$1,024,257	$1,044,742	$1,065,637
Staff related Expenses	6	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Trade Expenses	7	$130,064	$258,796	$363,067	$460,027	$542,259	$630,081	$725,958	$825,745	$933,817	$1,050,970
Professional Fees	8	$153,000	$156,060	$159,181	$162,365	$165,612	$168,924	$172,303	$175,749	$179,264	$182,849
SPV UBTI Tax Expenses		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Expenses	9	$102,000	$104,040	$106,121	$108,243	$110,408	$112,616	$114,869	$117,166	$119,509	$121,899
Operating Expenses	10	$1,276,742	$1,428,407	$1,556,070	$1,676,890	$1,783,459	$1,896,105	$2,017,303	$2,142,917	$2,277,333	$2,421,356
Net Operating Profit		$2,585,926	$5,488,531	$8,072,660	$10,467,813	$12,506,014	$14,688,740	$17,120,361	$19,576,454	$22,274,918	$25,181,869
Interest Expense	11	$0	$792,000	$1,386,000	$2,754,000	$3,961,463	$4,373,393	$4,190,347	$5,615,263	$6,394,078	$7,225,337
Total Expenses	12	$1,276,742	$2,220,407	$2,942,070	$4,430,890	$5,744,922	$6,269,498	$6,207,650	$7,758,180	$8,671,411	$9,646,693
Net Profit before Tax and Dividends and Unusual It	13	$2,585,926	$4,696,531	$6,686,660	$7,713,813	$8,544,551	$10,315,347	$12,930,014	$13,961,191	$15,880,840	$17,956,532
Gains/(Losses) on Sales in Investment Portfolio	14										
Net Profit before Tax and Dividends	15	$2,585,926	$4,696,531	$6,686,660	$7,713,813	$8,544,551	$10,315,347	$12,930,014	$13,961,191	$15,880,840	$17,956,532
Taxes	16	$853,355	$1,549,855	$2,206,598	$2,545,558	$2,819,702	$3,404,065	$4,266,904	$4,607,193	$5,240,677	$5,925,656
Net Profit After Tax	17	$1,732,570	$3,146,676	$4,480,062	$5,168,255	$5,724,849	$6,911,283	$8,663,109	$9,353,998	$10,640,163	$12,030,877
FUND Preferred Stock Dividends	18	$0	$0	$1,250,000	$1,250,000	$1,250,000	$2,500,000	$2,500,000	$2,500,000	$3,750,000	$3,750,000
Common Dividends	19	$1,645,942	$2,989,342	$3,006,059	$3,659,842	$4,188,606	$4,065,718	$5,729,954	$6,386,298	$6,358,155	$7,679,333
Net Profit after Tax and Dividends	20	$86,629	$157,334	$224,003	$258,413	$286,242	$345,564	$433,155	$467,700	$532,008	$601,544
Net Operating Profit to Revenues	21	66.95%	79.35%	83.84%	86.19%	87.52%	88.57%	89.46%	90.13%	90.72%	91.23%
Net Profit Before Tax and Divs to Revenues	22	66.95%	67.90%	69.44%	63.52%	59.80%	62.20%	67.56%	64.28%	64.68%	65.05%
Net Profit After Tax to Revenues	23	44.85%	45.49%	46.53%	42.56%	40.06%	41.67%	45.27%	43.07%	43.34%	43.59%
Net Profit After Tax and Divs to Revenues	24	2.24%	2.27%	2.33%	2.13%	2.00%	2.08%	2.26%	2.15%	2.17%	2.18%
Retained Earnings	25	$86,629	$243,962	$467,965	$726,378	$1,012,621	$1,358,185	$1,791,340	$2,259,040	$2,791,048	$3,392,592
Rate of Growth in Retained Earnings	26		181.62%	91.82%	55.22%	39.41%	34.13%	31.89%	26.11%	23.55%	21.55%
Dividend Yield on Commons Before Tax (Gross)	27	1.65%	2.99%	3.01%	3.66%	4.19%	4.07%	3.82%	4.26%	4.24%	4.39%
Dividend Yield on Commons After Tax (Net)	28	1.10%	2.00%	2.01%	2.45%	2.81%	2.72%	2.56%	2.85%	2.84%	2.94%
Earnings per Share (Common)	29	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Yield on FUND Preferred Dividends (Gross)	30	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

The key distinction with the CDFI Equity Fund structure is that the SPVs are also C-Corps, and it is possible that their loan revenue would be deemed taxable. This scenario assumes that *all* SPV revenues are deemed taxable. This is reflected on the operating statement in line 14, in the balance sheet in line 40, and on the cash flow in line 79.

BALANCE SHEET		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Cash	31	$11,810	$20,437	$15,862	$31,802	$33,925	$28,619	$67,314	$35,256	$53,606	$62,290
Marketable Securities	32	$48,100,000	$18,825,000	$18,900,000	$18,400,000	$19,075,000	$20,275,000	$26,275,000	$25,000,000	$27,300,000	$27,800,000
Accounts Receivable	33	$386,267	$691,694	$962,873	$1,214,470	$1,428,947	$1,658,485	$1,913,766	$2,171,937	$2,455,225	$2,760,323
Current Assets	34	$48,498,077	$19,537,130	$19,878,735	$19,646,272	$20,537,873	$21,962,104	$28,256,081	$27,207,193	$29,808,831	$30,622,612
Investment in SPV Preferred Stock - SOURCE Control	35	$5,202,565	$10,351,827	$14,522,661	$18,401,082	$21,690,343	$25,203,223	$29,038,329	$33,029,801	$37,352,693	$42,038,808
Investment in SPV Preferred Stock - SPV Controlled		$46,823,085	$93,166,440	$130,703,952	$165,609,739	$195,213,087	$226,829,008	$261,344,960	$297,268,212	$336,174,238	$378,349,271
Other Assets	36	$104,051	$207,037	$290,453	$368,022	$433,807	$504,064	$580,767	$660,596	$747,054	$840,776
Total Assets	37	$100,627,778	$123,262,434	$165,395,801	$204,025,115	$237,875,109	$274,498,400	$319,220,136	$358,165,802	$404,082,816	$451,851,467
Taxes Payable	38	$106,669	$193,732	$275,825	$318,195	$352,463	$425,508	$533,363	$575,899	$655,085	$740,707
SPV UBTI Taxes Payable	39	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest Payable	40	$0	$65,340	$114,345	$227,205	$326,821	$360,805	$345,704	$463,259	$527,511	$596,090
Dividends Payable	41	$135,790	$246,621	$351,125	$405,062	$448,685	$541,672	$678,971	$733,120	$833,923	$942,920
Other Accounts Payable	42	$19,253	$25,945	$31,418	$36,532	$40,914	$45,581	$50,656	$55,933	$61,630	$67,786
Accrued Expenses	43	$71,334	$72,761	$74,216	$75,700	$77,214	$78,759	$80,334	$81,941	$83,579	$85,251
Short Term Debt	44	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CPLTD		$0	$0	$0	$1,751,222	$3,069,017	$6,101,527	$8,902,816	$10,039,487	$8,291,364	$10,723,422
Current Liabilities	45	$333,047	$604,398	$846,929	$2,813,916	$4,315,113	$7,553,852	$10,591,844	$11,949,638	$10,453,091	$13,156,177
Long Term Debt	46	$0	$22,000,000	$38,500,000	$74,748,778	$106,679,762	$114,578,235	$105,675,419	$142,635,932	$164,344,568	$183,621,146
Other Liabilities	47	$208,103	$414,073	$580,906	$736,043	$867,614	$1,008,129	$1,161,533	$1,321,192	$1,494,108	$1,681,552
Total Liabilities	48	$541,150	$23,018,471	$39,927,836	$78,298,737	$111,862,489	$123,140,215	$117,428,796	$155,906,762	$176,291,767	$198,458,875
FUND Preferred Stock	49	$0	$0	$25,000,000	$25,000,000	$25,000,000	$50,000,000	$50,000,000	$50,000,000	$75,000,000	$75,000,000
FUND Common Stock	50	$100,000,000	$100,000,000	$100,000,000	$100,000,000	$100,000,000	$100,000,000	$150,000,000	$150,000,000	$150,000,000	$175,000,000
Retained Earnings	51	$86,629	$243,962	$467,965	$726,378	$1,012,621	$1,358,185	$1,791,340	$2,259,040	$2,791,048	$3,392,592
Total Equity	52	$100,086,629	$100,243,962	$125,467,965	$125,726,378	$126,012,621	$151,358,185	$201,791,340	$202,259,040	$227,791,048	$253,392,592
Total Liabilities & Equity	53	$100,627,778	$123,262,434	$165,395,801	$204,025,115	$237,875,109	$274,498,400	$319,220,136	$358,165,802	$404,082,816	$451,851,467
Reconciliation		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Ratio	54	145.62	32.32	23.47	6.98	4.76	2.91	2.67	2.28	2.85	2.33
Quick Ratio	55	144.46	31.18	22.33	6.55	4.43	2.69	2.49	2.10	2.62	2.12
Debt to Equity	56	0.00%	21.95%	30.69%	60.85%	87.09%	79.73%	56.78%	75.49%	75.79%	76.70%
Total Liabilities to Total Equity	57	0.54%	22.96%	31.82%	62.28%	88.77%	81.36%	58.19%	77.08%	77.39%	78.32%
Book Value SPV Preferreds $	58	$52,025,650	$103,518,267	$145,226,613	$184,010,822	$216,903,430	$252,032,232	$290,383,289	$330,298,014	$373,526,931	$420,388,078
Book Value Fund Preferreds $	59	$0	$0	$25,000,000	$25,000,000	$25,000,000	$50,000,000	$50,000,000	$50,000,000	$75,000,000	$75,000,000
FUND Preferred % to SPV Preferred	60	0.00%	0.00%	17.21%	13.59%	11.53%	19.84%	17.22%	15.14%	20.08%	17.84%
FUND Preferred % to Total Equity	61	0.00%	0.00%	19.93%	19.88%	19.84%	33.03%	24.78%	24.72%	32.92%	29.60%
FUND Preferred % to Total Assets	62	0.00%	0.00%	15.12%	12.25%	10.51%	18.22%	15.66%	13.96%	18.56%	16.60%
FUND Common Equity % Total Equity	63	100.00%	100.00%	80.07%	80.12%	80.16%	66.97%	75.22%	75.28%	67.08%	70.40%
FUND Common Equity % Total Assets	64	99.46%	81.33%	60.74%	49.37%	42.46%	36.92%	47.55%	42.51%	37.81%	39.48%

The only major change in the assumptions between the Source LP (and the Surveys) is that the unit loan volume for the CDFI Equity Fund begins in 2031 at the level projected to be achieved by the ten participating CDFIs in the Source LP's 10th year. Annual increases thereafter are projected at the same unit volume shown in the Surveys sequentially from year one through year ten. There are no additional CDFIs in this scenario: it is assumed that the ten original CDFIs switch their activity over to the new C-Corp platform.

CASH FLOW		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Beginning Cash	65	$0	$11,810	$20,437	$15,862	$31,802	$33,925	$28,619	$67,314	$35,256	$53,606
Net Profit After Tax and Dividends	66	$86,629	$157,334	$224,003	$258,413	$286,242	$345,564	$433,155	$467,700	$532,008	$601,544
Non-cash Items (including (Gains) and Losses on Inv	67	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Sources from Ops	68	$86,629	$157,334	$224,003	$258,413	$286,242	$345,564	$433,155	$467,700	$532,008	$601,544
New SPV Preferred Stock Purchases	69	($52,025,650)	($51,492,617)	($41,708,346)	($38,784,209)	($32,892,608)	($35,128,802)	($38,351,057)	($39,914,725)	($43,228,917)	($46,861,147)
Redemptions of SPV Preferreds: initiated by the SPVs	70	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Redemptions of SPV Preferreds: initiated by the Sour	71	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Increase)/Decrease in Marketable Securities	71	($48,100,000)	$29,275,000	($75,000)	$500,000	($675,000)	($1,200,000)	($6,000,000)	$1,275,000	($2,300,000)	($500,000)
Accounts Receivable	72	($386,267)	($305,427)	($271,179)	($251,597)	($214,477)	($229,537)	($255,282)	($258,171)	($283,288)	($305,097)
Other Assets	73	($104,051)	($102,985)	($83,417)	($77,568)	($65,785)	($70,258)	($76,702)	($79,829)	($86,458)	($93,722)
Increase (Decrease) Taxes Payable	74	$106,669	$87,062	$82,093	$42,370	$34,268	$73,045	$107,855	$42,536	$79,186	$85,622
Increase (Decrease) SPV UBTI Taxes Payable	75	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Increase (Decrease) Interest Payable	76	$0	$65,340	$49,005	$112,860	$99,616	$33,984	($15,101)	$117,556	$64,252	$68,579
Increase (Decrease) Dividends Payable	77	$135,790	$110,831	$104,504	$53,937	$43,623	$92,987	$137,299	$54,148	$100,803	$108,997
Increase (Decrease) Other Accounts Payable	78	$19,253	$6,692	$5,474	$5,113	$4,382	$4,667	$5,075	$5,277	$5,697	$6,156
Increase (Decrease) Accrued Expenses	79	$71,334	$1,427	$1,455	$1,484	$1,514	$1,544	$1,575	$1,607	$1,639	$1,672
Increase (Decrease) CPLTD	80	$0	$0	$0	$1,751,222	$1,317,795	$3,032,510	$2,801,289	$1,136,671	($1,748,123)	$2,432,059
Increase (Decrease) Other Liabilities	81	$208,103	$205,970	$166,833	$155,137	$131,570	$140,515	$153,404	$159,659	$172,916	$187,445
Total Uses	82	($100,074,818)	($22,148,707)	($41,728,578)	($36,491,251)	($32,215,103)	($33,249,343)	($41,491,645)	($37,460,272)	($47,222,295)	($44,869,437)
Net Operating Sources/(Uses)	83	($99,988,190)	($21,991,373)	($41,504,575)	($36,232,838)	($31,928,860)	($32,903,779)	($41,058,489)	($36,992,572)	($46,690,286)	($44,267,894)
Short Term Debt Increase (Decrease)	84	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Long Term Debt: Amortization	85	$0	$0	$0	$0	($1,751,222)	($3,069,017)	($6,101,527)	($8,902,816)	($10,039,487)	($8,291,364)
New Long Term Debt	86	$0	$22,000,000	$16,500,000	$36,248,778	$33,682,205	$10,967,490	($2,801,289)	$45,863,329	$31,748,123	$27,567,941
New FUND Preferreds Issued	87	$0	$0	$25,000,000	$0	$0	$25,000,000	$0	$0	$25,000,000	$0
FUND Preferreds Redeemed	88	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
New FUND Common Stock Issued	89	$100,000,000	$0	$0	$0	$0	$0	$50,000,000	$0	$0	$25,000,000
FUND Common Stock Repurchased	90	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Financing Sources	91	$100,000,000	$22,000,000	$41,500,000	$36,248,778	$31,930,983	$32,898,473	$41,097,184	$36,960,513	$46,708,636	$44,276,578
Change in Cash	92	$11,810	$8,627	($4,575)	$15,940	$2,123	($5,306)	$38,695	($32,059)	$18,350	$8,684
Ending Cash	93	$11,810	$20,437	$15,862	$31,802	$33,925	$28,619	$67,314	$35,256	$53,606	$62,290
Free Cash Flow (FCF) $ (NPBT plus non-cash items)	94	$2,636,757	$4,765,440	$6,741,428	$7,755,549	$8,579,262	$10,362,295	$12,988,137	$14,003,973	$15,935,586	$18,016,183
Total Debt	95	$0	$22,000,000	$38,500,000	$76,500,000	$109,748,778	$120,679,762	$114,578,235	$152,675,419	$172,635,932	$194,344,568
Years to Repay Debt	96	0.00	4.62	5.71	9.86	12.79	11.65	8.82	10.90	10.83	10.79
FCF % to SPV Preferred Purchases	97	5.07%	9.25%	16.16%	20.00%	26.08%	29.50%	33.87%	35.08%	36.86%	38.45%
SPV Redemptions to SPV Purchases	98	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

INDICATORS		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Footings											
Assets	99	$100,627,778	$123,262,434	$165,395,801	$204,025,115	$237,875,109	$274,498,400	$319,220,136	$358,165,802	$404,082,816	$451,851,467
Rate of Growth / 9 year average	100		122%	128%	127%	124%	122%	121%	120%	119%	118%
SPV Preferreds	101	$52,025,650	$103,518,267	$145,226,613	$184,010,822	$216,903,430	$252,032,232	$290,383,289	$330,298,014	$373,526,931	$420,388,078
Total Debt	102	$0	$22,000,000	$38,500,000	$76,500,000	$109,748,778	$120,679,762	$114,578,235	$152,675,419	$172,635,932	$194,344,568
Total Equity	103	$100,086,629	$100,243,962	$125,467,965	$125,726,378	$126,012,621	$151,358,185	$201,791,340	$202,259,040	$227,791,048	$253,392,592
Total Debt to Total Assets	104	0.00%	17.85%	23.28%	37.50%	46.14%	43.96%	35.89%	42.63%	42.72%	43.01%
Investments											
Investments (Cash and Marketable Securities)	105	$48,111,810	$18,845,437	$18,915,862	$18,431,802	$19,108,925	$20,303,619	$26,342,314	$25,035,256	$27,353,606	$27,862,290
Investments to Assets	106	47.81%	15.29%	11.44%	9.03%	8.03%	7.40%	8.25%	6.99%	6.77%	6.17%
SPV Preferred Shares (Portfolio Assets)											
SPV Preferreds to Avg. Assets	107	51.70%	83.98%	87.81%	90.19%	91.18%	91.82%	90.97%	92.22%	92.44%	93.04%
SPV Preferred Shares Purchased $	108	$52,025,650	$51,492,617	$41,708,346	$38,784,209	$32,892,608	$35,128,802	$38,351,057	$39,914,725	$43,228,917	$46,861,147

Appendix K

Credit Audit Analytical Format

I. CREDIT AUDIT # ____ BORROWER NAME: ____ DATE____________________

Name		Established	
Address		Number of Employees	
		Customer Since	
		D-U-N-S #:	
		DUNS RATING:	
Contact 1		PAYDEX Score	
Email		Facility Origination Date	
Phone		Loan Principal Amount	
Fax			
Contact 2		Fincancial Statements	
Email		Date	
Phone		Audited (A) or Company Prep (CP)	
Fax		Owner Credit Score	
LOAN #		Business Credit Score	

	Y/N_Date		Y/N_Date		Y/N_Date
Promissory Note		Audited Annual FS		Interest Paid	
Loan Agreement		Tax Statements		Principal Reduction	
Lien Perfection		Co. Prep Quarterlies		Taxes Paid	
SBA Eligibility		Credit Score		Renegotiated	

	This Qtr	Renewed	Renewed	Renewed	Renewed	Renewed	Renewed	Renewed	Renewed	Renewed	Renewed	Renewed
Facility Origination Date												
Loan Principal Amount												

	Last Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr	Prior Qtr
Date												
Audited (A) or Company Prep (CP)												
Owner Credit Score												
Business Credit Score												

RATING:

Total Deposits - Business												
Total Deposits - Owner(s)												
Max A/Rs from Top 10 Customers												
Number of New Customers												
Number of Total Customers												
Avg Size of Customer Transaction												

COMMENTS ON BUSINESS, CUSTOMER RELATIONSHIP

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II. CREDIT AUDIT # ____ BORROWER NAME: ____DATE____________________

Other Debt 1		Most Recent Fincancials	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Last Yr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Prior Yr	Prior Yr	Prior Yr
Contact		Date												
		Revenues												
Other Debt 2		Cost of Goods Sold												
Contact		Interest Expense												
		Net Profit Before Tax												

Other Debt 2		Cash and Short Term Investments												
Contact		Accounts Receivable												
		Inventory												
SBA Contact		Accounts Payable & Accruals												
		Short Term Debt												
Website (Good/Bad)		Long Term Debt												
		Net Worth												
Name of Lender		Total Assets												
Lender Visit (Y/N)		% Cash from Operations												
Last Lender Visit		% Cash from Operations to Debt												
Principal Past Due		Interest Coverage												
Days Past Due		Inventory Days on Hand												
Interest Past Due		Receivables Days on Hand												
Days Past Due		Accounts Payable Days on Hand												
Date of latest customer contact		Current Ratio												
		Leverage Ratio												
Date of latest contact with SBA		Owners advances												
		Owners advances to Total Assets												

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COMMENTS ON FINANCIAL CONDITION

Exhibit 1. Quarterly Updates and Annual Reports of the CDFI Equity Project

Outline of the First Quarter 2020 Activities on the CDFI Equity Fund

The following summarizes the activities of the first quarter of 2020 through 3.31:

1. Initial outline of the concept
    - The necessity of an intermediary—the CDFI Equity Fund
    - The necessity of CDFIs to create 100% owned for-profit SPVs
    - Access by the Equity Fund to plan vanilla preferred in the market vs. investing in a new kind of preferred issued by the SPVs

2. Software for the prototype
   The software for the prototype was developed by adjusting the Sustainable Mission System (SMS) to suit the need. The software was developed by C. Tansey and E. Hangen and is owned by UNH/NeighborWorks America, developed by C. Tansey, E Hangen. It enables participants to run an infinite number of scenarios in real time.

3. Survey
   The survey, which takes 30-45 minutes to complete, provides sufficient information on the CDFI and the kinds of loans it wants to make to populate the SMS software. We have received 3 surveys from the 7 original participants to date. Three of the original participants remain interested but have prioritized challenges with Covid-19.

4. Identification of the type of Preferred Stock
   We have identified the kind of preferred stock we want the CDFI Equity Fund to issue. There is a non-cumulative perpetual preferred issued by the Dime Community Bank of Brooklyn in early 2020 that is a model. Our prototype Fund is significantly better capitalized (and will remain so) than the Dime.

5. Conference calls with participants
   Several conference calls with the participants and one with the sponsors. A number of individual participant calls and follow-ups to the survey. Original participants include: OFN, Capital Impact, LIIF, NHCLF, ROC USA, Chicago CLF, Craft 3.

6. Inputs of the CDFI survey results to the SMS model of the prototype
   We ran a large number of scenarios. The optimal (stabilized) size of the Fund is about $200 million in assets, though $100 million is feasible. Under the current structure, $200 million produces $1 billion in new lending. The minimum size is $75 million. It is possible to run a slightly leveraged Fund with a 50/50 split between non-cumulative perpetual preferred and common stock. It is possible to convert the common stock from a concessionary to a market rate over time.

7. Solicited additional participants
   We assumed going in that we would need to have a minimum of 5 participants. We learned that we would also need to have a maximum of about 15. In order to assure sufficient volume, we have approached the following (invitation only):
   - IFF, LISC, Florida Community Loan Fund, Community Housing Capital

8. Outline of operational processes for the Fund
   The CDFI Equity Fund will have a highly automated monitoring and remedial structure and a small staff. Staff skill sets are asset/liability management, loan portfolio analysis, and CDFI familiarity. The processing of equity requests will have the following attributes:
   - Delegated authority
   - Upgraded monthly portfolio reporting
   - Early warning system and graduated system of remedies
   - Reliance on AERIS for the CDFI condition
   - Online, automated portfolio analysis
   - Online, automated CDFI stress test (SMSST, owned by UNH, developed by C. Tansey for the USDA Community Facilities Relending team)
   - Well-defined system of graduated remedies

For the second quarter of 2020, the primary objectives are:

1. Vetting the prototype with accounting and legal specialists.
2. Spreading the SPVs for each CDFI.
3. Designing the Roll-Up software which shows the impact on the financials in real time for the CDFI Equity Fund, SPV and CDFI (based on an MIT GCFP model developed by C. Tansey and E. Hangen).
4. Development of the portfolio reporting protocols.
5. Refinement of the actual process for CDFIs to select and draw down equity.
6. Conference calls with the CDFI participants and the Sponsors.
7. Obtaining no more than 15 active participants.

Outline of the Second Quarter 2020 Activities on the CDFI Equity Fund

As noted in the Update of the First Quarter of 2020, the primary objectives of the second quarter were:

1. Vetting the prototype with accounting and legal specialists.
   a. The proposed structure of the fund was reviewed by Cohn-Reznick and the assumptions about consolidating the net assets of the SPVs into the CDFIs that owned was confirmed. Also confirmed were the following: the movement of cash from the SPV to the CDFI, transactions to be arms-length—all loans to be sold to the SPVs rather than pledged or allocated, the need for a clear operating agreement between CDFI and SPV, the preferred stock counting as true equity for the CDFI. There have been a number of discussions with a securities lawyer, and the initial structure shows ownership by the common (concessionary) shareholders with a likely Board majority, board representation by CDFI industry interests (excluding participants), and a Credit committee consisting primarily of CDFI lending interests. There has been an initial discussion with the CDFI Fund about participating.

2. Spreading the SPVs for each CDFI.
    a. Surveys have not yet been received from all of the 11 potential participants. While the initial software has been selected, it has not yet been populated. AERIS has been contacted to provide historical data that will help populate the SPVs.

3. Designing the Roll-Up software which shows the impact on the financials in real time for the CDFI Equity Fund, SPV and CDFI (based on an MIT GCFP model developed by C. Tansey and E. Hangen).
    a. The designing has begun but awaits completion of the SPV spreads.

4. Development of the portfolio reporting protocols.
    a. These have been started.

5. Refinement of the actual process for CDFIs to select and draw down equity.
    a. This has been completed. The CDFIs can draw down funds on quarterly basis to fund new loans or existing loans in their portfolios. CDFIs are delegated the authority to make loans that are eligible to be sold to the SPVs. There is no prior approval required on the part of the fund.

6. Conference calls with the CDFI participants and the Sponsors.
    a. There was a conference call on June 8th in which all but one of the participants were present. The agenda covered structural issues and questions. We had phone calls with Rockefeller and Goldman, with good suggestions.

7. Obtaining no more than 15 active participants.
    a. The number of potential participants is 11, which appears to be adequate at this point. One of the participants may choose to manage, or assist, in managing the fund. They will have to choose either to manage or participate to avoid conflicts of interest.

For the Third Quarter, our objectives are:

1. Completion of the outline for the legal structure
2. Completion of the spreading of the SPVs
3. Development of the Roll-Up software for the products, the SPVs, the CDFIs, and the Fund
4. Completion of the reporting protocols
5. Outline of the staffing requirements
6. Outline of the initial package to show to investment bankers and the rating agencies
7. Conference calls with participants and sponsors. Additional discussions with the CDFI Fund.

Update of the Third Quarter 2020 Activities on the CDFI Equity Source

As stated in the *Update of the Second Quarter of 2020*, the primary objectives of the third quarter were:

1. Completion of the outline for the legal structure
2. Completion of the spreading of the SPVs
3. Development of the Roll-Up software for the products, the SPVs, the CDFIs, and the Fund
4. Completion of the reporting protocols
5. Outline of the staffing requirements

6. Outline of the initial package to show to investment bankers and the rating agencies
7. Conference calls with participants and sponsors. Additional discussions with the CDFI Fund.

Status is as follows:

1. Completion of the outline for the legal structure

The outline is still under discussion. We are currently presenting the CDFI Equity Source as a beneficial corporation that is governed by a board of directors made up primarily of common stock investors. There may be CDFI representation on the board, but the main influence will be in the form of an advisory committee that recommends adjustments to the product line as needed. Neither board nor committee representation will include CDFIs who are participating in the program by issuing equity. At present, all of the 100% wholly owned CDFI SPVs are proposed to be corporations, although this is still under study. During the fourth quarter, we will be having the outline finalized and reviewed by at least one of two law firms that specialize in this area.

2. Completion of the spreading of the SPVs

This is still in process. Several CDFIs have yet to submit their surveys. The development of the Roll-Up Software, which populates the SPV and CDFI Equity Source forecasts, is taking much longer than anticipated. One positive breakthrough in this process is the cooperation with AERIS, which will be providing financial data on participating CDFIs (as approved by the CDFIs) which will significantly assist in the spreading. While the spreads are presently targeted to be complete by mid-November, they should be definitely completed by the end of December.

3. Development of the Roll-Up software for the products, the SPVs, the CDFIs, and the Fund

We have split the Roll-up software into two parts: Phase I and Phase II. Phase I is what we hope to complete in November (no later than December). Phase II shows (1) how the SPVs affect the CDFI as a whole both on a consolidated and unconsolidated basis, and (2) how the SPV forecasts combine with the CDFI forecasts. Design and modelling of Phase II will take place during the first and second quarters of 2021.

4. Completion of the reporting protocols

The reporting protocols have been outlined. However, they will not be completed until after input from the rating agencies and investors in the second or third quarter of 2021.

5. Outline of the staffing requirements

This has been started and should be completed by the end of November.

6. Outline of the initial package to show to investment bankers and the rating agencies

We will be assembling an initial draft once the first set of forecasts is completed (no later than the end of December). This draft will be discussed with the rating agencies and investment bankers.

7. Conference calls with participants and sponsors. Additional discussions with the CDFI Fund.

We conducted another call with the CDFI participants (full attendance). We presented a model that shows how the CDFI Equity Source funding can be used by CDFIs to (1) increase the amount of funding available to capitalize the origination of loans; (2) reduce the use of hard-to-find grant funding; and (3) improve liquidity while lowering leverage. The presentation was generated on a UNH calculator that was developed for the purpose and will be made available to participating CDFIs for the purpose of managing their portfolios.

We had discussions with several CDFIs who wish to participate. One existing participant has indicated that they have no near-term need for equity, but remain as part of the program. We have initiated discussions with three additional financial institutions (Morgan Stanley, Deutsche Bank, and Wells Fargo) and have had an initial discussion with S&P.

For the Fourth Quarter, our objectives are:

1. Finalize outline of the legal structure
2. Finalize forecasts for the SPVs and the CDFI Equity Source
3. Initial reviews of the concept and the forecasts by the rating agencies and investment bankers
4. Initiate Phase II of the Roll-Up software for assisting CDFIs with maximizing the use of the equity.

Fourth Quarter and 2020 Annual Report

Objective

The objective of the CDFI Equity Funding Project is to develop a blueprint for enabling CDFIs of all sizes to obtain long-term patient capital from the mainstream capital markets. The Project was initiated in January 2020 and the blueprint is scheduled for delivery by December 31, 2021. The following was accomplished during the 2020 year:

Structure

1. We designed a structure that could feasibly channel plain vanilla preferred stock investment proceeds into CDFIs in the form of true equity. It was determined that due to economies of scale and differences in policies and procedures, an intermediary would be needed for the purpose. We developed an outline and a forecast for that intermediary. The working name for the intermediary is the SOURCE. We also established that the recipients of the preferred stock proceeds would be for-profit special purpose vehicles (SPVs) that are wholly owned by the participating CDFIs. A summary chart is in *Appendix I*.

2. Using the Carsey SMS software, we ran a large number of scenarios. The optimal (stabilized) size of the Fund is about $200 million in assets or greater, and anything under $100 million probably won't work. Under the current structure, $200 million produces $1 billion in new community development lending. It is possible to run a slightly leveraged Fund with a 50/50 split between non-cumulative perpetual preferred and common stock. It is planned that the preferred stock will be at market rate, and that initially the common will be concessionary. However, the objective is to bring the common stock to a market rate (as a dividend stock) over time. This would produce a source of equity for the CDFI industry that is not subsidized, and is therefore easily accessible and essentially unlimited.

3. The CDFI equity SOURCE will have a highly automated monitoring and remedial structure, modeled on the system used by the SBA. It will be managed by a very small staff. Staff skill sets are asset/liability management, loan portfolio analysis, and credit analysis. Familiarity with the CDFI industry will be essential. The processing of the equity requests when the quarterly window is open will include the following key attributes:

   i. Delegated authority on new and existing loans in the CDFI portfolio
   ii. Upgraded monthly portfolio reporting

iii. Early warning system and graduated system of remedies
iv. Online, automated portfolio analysis
v. Online, automated CDFI stress test
vi. Well-defined system of graduated remedies
vii. Reliance on AERIS for the CDFI condition.

Notably, the level of automation and the size of the staff are key factors in enabling the SOURCE to generate increasing operating profits as the portfolio grows.

Participants

1. At present there are 13 CDFIs that qualify and have expressed interest in participating in the first fund. The primary qualification is that the CDFI has or is in the process of obtaining a satisfactory or better rating from AERIS. Participants are: Capital for Change, Capital Impact, Chicago Community Housing Capital, Community Loan Fund, Craft 3, Florida Community Loan Fund, LISC, LIIF, NCIF, New Hampshire Community Loan Fund, Opportunity Finance Network, Pacific Community Ventures, and ROC USA. For the purposes of simplicity, the initial development of the SOURCE fund should include no more than 15 CDFIs.

2. A survey was developed for the participants. The purpose was to obtain current and forecasted financial and portfolio data from each participant that would enable us to create and populate the SOURCE, and evaluate the benefits and the risks to both the SOURCE and the CDFI SPVs. As part of this effort, we established a relationship with AERIS which is providing us financial data on the participants (with their prior approval) for the purpose. AERIS is providing this data on a pro bono basis.

3. We have conducted 3 quarterly conference calls with the participants. The primary issues raised have been as follows:

   i. Are the obligations among the CDFIs joint and several, and do investors have a security interest in individual loans? No, in both cases. Each CDFI has its own relationship with the SOURCE, and there are no joint and several obligations. The SOURCE holds a floating lien on the portfolio of each SPV that is subordinated to the senior debt that is funding it. The lien is on the portfolio as a whole and not on the individual loans.
   ii. Will the Source be approving each loan that a CDFI sells to its SPV? No. The CDFIs have delegated underwriting authority.
   iii. Is this going to be too costly? Preferred stock will cost more than equivalent long-term debt, but evaluated on the basis of blended cost, it should be manageable. The chart in Appendix I shows how this can work.
   iv. Is it true equity for the CDFI? We created a program that shows how the equity at the SPV level becomes equity at the CDFI level and how it improves liquidity as well as capital at the consolidated basis. The program was evaluated by Cohn-Reznick and determined to be accurate. A portion of the program is shown in Appendix II.
   v. Does this create a good bank/bad bank situation that militates against taking community risk? We created a program that shows how, in the most likely scenarios, the access to equity of this type actually increases the CDFI's capacity to take on additional community risk, rather than to reduce it. The introduction is included in Appendix III.

Several participants have seen a great influx of capital into their balance sheets this past year, and noted that they do not have an immediate need for this kind of equity. On the other hand, they do see it as something they may well need in the future.

The Equity Instruments

1. We have tentatively identified the type of preferred stock that the SOURCE should issue: non-cumulative perpetual preferred. We would like it to have an A rating. We reviewed an issue by the Dime Community Bank of Brooklyn in early 2020 as a model. Our prototype SOURCE is significantly better capitalized (and will remain so) than the Dime. We will be looking at an additional 3 bank preferred stock issues as models.

2. We have tentatively identified the type of preferred stock that the SOURCE will purchase from the CDFI SPVs. It is likely to be non-cumulative, but have a maturity of 25-30 years. Unlike the SOURCE preferred which is plain vanilla and rated, the SPV preferred will not be rated initially, and will need to have somewhat less flexible payment terms as a result.

3. The SOURCE will build a liquidity capacity for its SOURCE Preferred and, in time, its common stock. It will also build liquidity capacity for the SPV preferreds in order to help transition them directly to the market if and when the CDFIs grow large enough.

4. The SOURCE will issue most of its SOURCE preferreds after it has issued its full component of common stock. The bulk of the SOURCE preferreds will be issued after the second year of operation. The CDFI participants will issue SPV preferreds as the need arises. There is a quarterly window for selling new and existing loans to their SPVs and issuing the SPV preferreds to the SOURCE. CDFIs are delegated the authority to make loans that are eligible to be sold to the SPVs. There is no prior approval required on the part of the fund. The SOURCE tracks how well the portfolio as a whole and the loans in it align with the annual CDFI forecasts in terms of amount, size, term, rate, credit risk, and demographics.

Platform

1. We have been developing the “Roll-Up” platform which enables us to build the loan portfolios of each CDFI SPV on a loan-by-loan basis, and then spin the data up to the SOURCE and separately to the CDFI. The structure and procedures of the Roll-up are summarized in Appendix IV.

2. We have split the Roll-up software into two parts: Phase I and Phase II. Phase I is dedicated to designing the software and collecting and inputting the loan data for the purposes of creating the CDFI SPVs and the SOURCE. The deadline was originally 12.31.20. The deadline has been moved back about 2 months due to delays in software design. The software is near completion and the loan data from the CDFIs should be loaded in January. We should have complete financial forecasts for the SPVs and the SOURCE no later than the end of February. Screenshots of the software are shown and summarized in Appendix V.

3. Phase II will show: (1) how the SPVs integrate with the CDFI as a whole, both on a consolidated and unconsolidated basis, and (2) how the SPV forecasts combine with the CDFI forecasts. Design and modelling of Phase II will take place during the first and second quarters of 2021.

4. The SPV reporting protocols are essential to the prudent operation of the SOURCE’S monitoring function. They directly align with the data required in the Roll-Up for the purposes of: (1) aligning with the CDFI’s

financial, demographic, and risk targets, and (2) generating early warnings and remedies for differences in performance. The protocols have been initiated but are likely to be completed only after review of the whole project by the rating agencies and investors. This is targeted for the 4th Quarter of 2021.

Project Vetting and Review

1. The proposed structure of the fund was reviewed by Cohn-Reznick on a pro bono basis. The paper (a part of which is shown in Appendix II) and the assumptions were confirmed about consolidating the net assets of the SPVs into the CDFIs that owned them. Also confirmed were the following: the movement of cash from the SPV to the CDFI, transactions to be arms-length—all loans to be sold to the SPVs rather than pledged or allocated, the need for a clear operating agreement between the CDFI and the SPV, and the SPV preferred stock counting as true equity for the CDFI.

2. The initial legal structure was developed following a series of discussions with a securities lawyer. The SOURCE would be a beneficial corporation owned by the concessionary common shareholders. These shareholders would have a board majority. There would be CDFI representation on the board, but the main industry influence would be in the form of an advisory committee that recommends adjustments to the product line as needed. Neither board nor committee representation would include CDFIs who are participating in the program. At present, all of the 100% wholly owned CDFI SPVs are proposed to be corporations, although this is still under study. The structure is also still under discussion; Orrick, Herrington & Sutcliffe have offered pro bono assistance to fill in the blueprint of the structure.

3. We have had positive discussions with the structured finance and affordable housing teams at S&P.

4. There has been an initial discussion with senior staff at the CDFI Fund at the Department of Treasury about participating. They expressed interest in the possibility of investing.

5. In addition to the Sponsors of this CDFI Equity Funding Project, we have engaged in positive discussions with Morgan Stanley, and Deutsche Bank.

6. Assistance on the project has also come from Elyse Cherry, Chief Executive of Blue Hub Capital; Becky Regan, former CFO of the Housing Partnership Network; Steve Davidson of the Department of Treasury (and formerly of Securities Industry and Financial Markets Association); and Judd Levy formerly of Merrill Lynch and founder of Community Development Trust.

7. Kerwin Tesdell, who is President of the Community Development Venture Capital Alliance, has joined the effort as the potential manager of the SOURCE. The CDVCA has over $200 million under management in community development assets and has a deep understanding of the CDFI sector.

Chief Activities for 2021

The following is a summary. The full work plan is provided under separate cover:

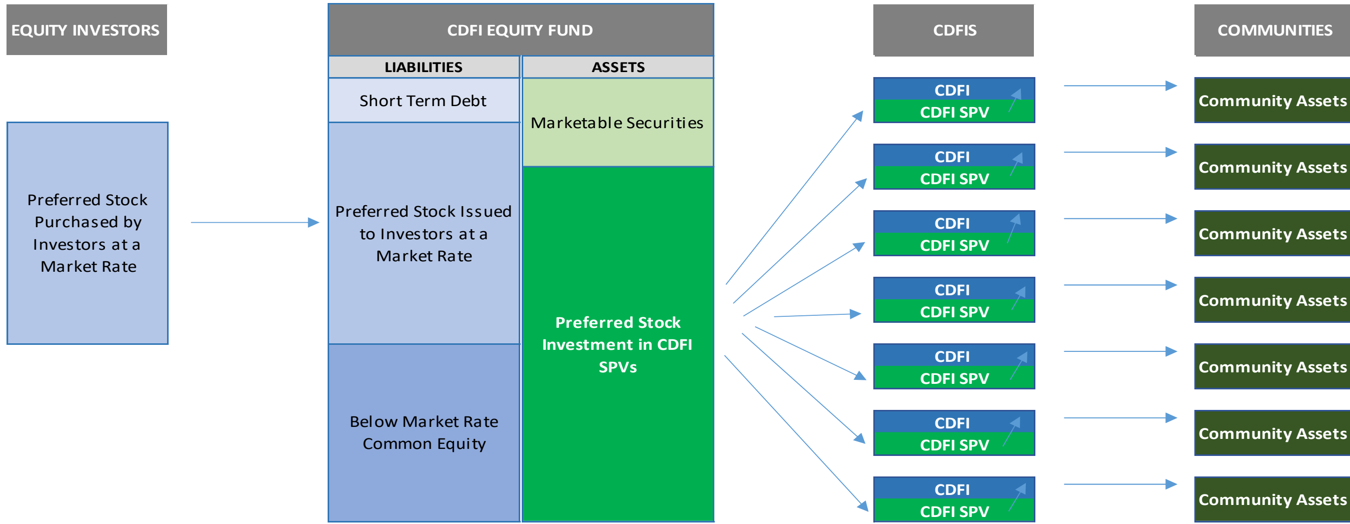
1. Completion of the financial forecasts of the SPVs and the SOURCE
2. Vetting of the forecasts with the CDFIs
3. Completion of the outline for the legal structure
4. Finalization of the SOURCE staffing requirements
5. Outline of the initial package to show to investment bankers and the rating agencies

6. Initiate Phase II of the Roll-Up software for assisting CDFIs with maximizing the use of the equity
7. Initial reviews of the concept and the forecasts by the rating agencies and investment bankers
8. Vetting the prototype with accounting and legal specialists
9. Development of the portfolio reporting protocols
10. Refinement of the actual process for CDFIs to select and draw down equity
11. Creation of a proposal for the rating agencies
12. Final discussions with the rating agencies and implementation of adjustments to the blueprint
13. Creation of a proposal for Preferred and Common investors
14. Discussions with interested investors and the CDFI Fund

As with 2020, there will be quarterly conference calls with the CDFI participants and reports to the Sponsors.

EXHIBIT 1

Annual Report 2020 Appendix I: The Design of the Source and Blended Cost of Capital



1 The CDFI Equity Fund (CEF) raises $80 million in common equity from banks and foundations that pays a dividend rate of 1%.
2 Conventional equity investors buy $100 million of preferred stock in the CEF. The Preferred Stock has a cumulative dividend rate of 6%.
3 The CEF obtains a bank credit line for liquidity of $20 million at 2%.
4 The blended cost of funds to the CEF is 3.60%. In order to cover operating costs the CEF adds 1% to the rate it will charge the CDFIs.
5 The CEF invests $160 million in Preferred Stock into for-profit SPVs that are owned by the CDFIs and are on their balance sheets. The dividend rate is in this example would be 4.60%.
6 The CDFIs capitalize their SPVs with 5-10% of their own net assets. Then they ask the CEF for 10-20% in Preferred Stock, targeting a capitalization for their SPVs of 20-25%. As we shall show below when we talk about the SPV, this capitalization enables the CDFI to lower the rate to the borrowers below the 4.60% on the Preferred Stock dividend.
7 The CDFIs originate loans as they always do, but they place them in their SPVs. The CDFIs set the interest rate to the borrowers. The CDFIs set the operational fees they charge the SPVs. This enables them to capture the same revenue they would capture as if they had no SPV. The SPV is just a for-profit passthrough that enables CDFIs to obtain equity.
8 If we net out all of the transfers among accounts, essentially we have added $160 million in equity to the CDFI sector. This equity is not restricted. It can be used for any organizaional purpose.

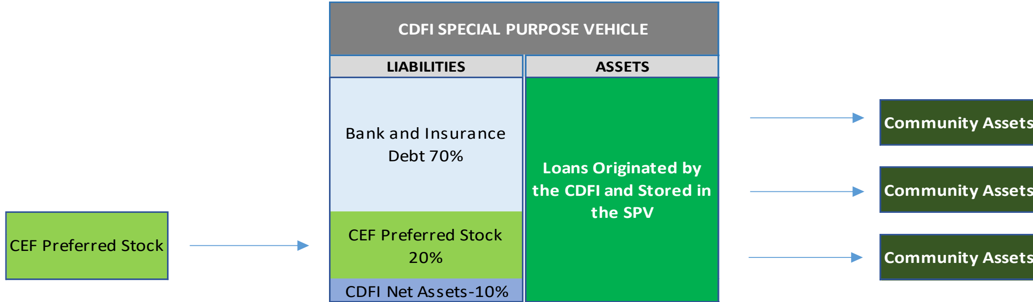
This chart shows the essential players in the SOURCE (formerly called the CDFI Equity Fund “CEF”) and how the SOURCE would make most of its $200 million in equity flow to the CDFIs.

EXHIBIT 1

We can change the rate on the preferred stock dividends that the CDFI SPVs by altering the amount of common equity invested by banks and foundations:
Using the same rate assumptions:

	Dividend Rate Paid to the CEF
CEF raises $120 million of common equity and $80 million of Preferred Stock instead of $100 million and $80 million respectively:	3.91%
CEF raises $140 million of common equity and $40 million of Preferred Stock instead of $100 million and $80 million respectively:	3.10%
OR CEF raises $60 million of common equity and $120 million of Preferred Stock instead of $100 million and $80 million respectively:	5.10%

But before we do that it is important to see how we can reduce the cost to the CDFI borrower below the 4.60% rate we show in the example.



Assuming that our Net Assets do not have a cost in this example and that our bank debt is at 2% and our CEF Preferred Stock is at 4.60%, then our blended cost of funds is 2.65%
While not as inexpensive as the bank debt at 2% it enables the CDFI to serve its constituency by growing.

Now let us see what the cost of funds of the SPV will be if we use the funding scenarios above at the CEF:

	SPV Cost of Funds
CEF raises $120 million of common equity and $80 million of Preferred Stock instead of $100 million and $80 million respectively:	2.48%
CEF raises $140 million of common equity and $40 million of Preferred Stock instead of $100 million and $80 million respectively:	2.28%
OR CEF raises $60 million of common equity and $120 million of Preferred Stock instead of $100 million and $80 million respectively:	2.78%

This second chart shows how the concept of the blended cost of funds works for the CDFI (the CEF is the original working title for the SOURCE).

EXHIBIT 1

Annual Report 2020 Appendix II: How the Source Equity Capitalizes the CDFI

Objective

CDFIs have a major challenge in raising capital for growth.

The CDFI EQUITY SOURCE enables CDFIs to grow their lending activity while decreasing their leverage.

The SOURCE provides true equity. It is preferred stock that carries maturities in excess of 20 years, pays a non-cumulative dividend, and has no restrictions on use of proceeds.

General Underlying Assumptions for this Exercise

In the following pages, we show examples of the three different ways that CDFIs can add the EQF equity to their balance sheet and improve their capitalization while making loans.

- The first method shows how a CDFI can make a whole loan and then capitalize it afterwards, using the EQF equity.
- The second method shows how a CDFI can make a subordinated loan after a bank makes a senior loan.
- The third method shows how the CDFI's SPV can make a loan.

For illustrative purposes we use the same $8 million CDFI making a $1 million loan to a borrower with $3 million in total assets. The CDFI starts with $2.5 million in cash and investments, $5.5 million in loans outstanding, and a Cash and Investment to Total Assets (liquidity) ratio of 31.25%. It has $6 million in liabilities and $2 million in equity for a 3.0:1 leverage—which is the maximum its Board will allow.

For the purposes of these examples, we also assume that in order to maintain access to the EQF equity, each participating CDFI must ensure that:

- The SPV has sufficient cash on hand to pay the EQF expenses as agreed upon and the preferred dividend.
- The CDFI's equity investment in the SPV does not fall below 50% of the EQF preferred stock outstanding for whole loans.
- The CDFI's equity investment in the SPV does not fall below 100% of the EQF preferred stock outstanding for subordinated loans.
- All loans allocated to the SPV portfolio are current or are being replaced with cash or with loans that are current.
- Principal repayments on the loans in the SPV portfolio are managed to align generally with redemption of the EQF preferreds.

These guidelines are for the purposes of this exercise only. However, they are indicative of the kinds of guidelines that will be required in order to access equity in the capital markets.

EXHIBIT 1

First Method: The CDFI Makes the Whole Loan and Allocates It to the SPV (SEE FOLLOWING CHARTS)

Beginning:

- We introduce the CDFIs balance sheet—both assets and liabilities/net assets—which total $8 million, plus two key ratios.
- We introduce the Borrower's total assets, which total $3 million.
- We introduce a $1 mm loan.

Step One

- The CDFI makes the $1mm loan by taking $1mm out of its Cash and Investments and transmitting it to the borrower.
- This creates a Loan Receivable for the CDFI and a loan payable for the borrower.
- It increases the borrower's assets by $1mm.
- The CDFI's assets do not increase because it used its own cash to make the loan.
- The big change: the CDFI's liquidity ratio goes from 31.25% down to 18.75%.

Step Two

The CDFI creates its SPV by investing $100,000 of its cash in the SPV common stock (or common interest). The CDFI puts 10% of the value of each loan into the common stock of the SPV in order to capitalize it. This reduces CDFI cash by $100,000 and increases its investment in equity by $100,000. The CDFI's total assets remain the same.

Step Three

- The CDFI allocates sells the $1mm loan to its SPV.
- The Intermediary Platform ("Source LP") has a working formula for the SPV (may be adjusted by asset class and rating impact): a maximum of senior debt of 70%, a minimum investment by the CDFI of 10% common equity in the SPV, and a maximum of 20% of the total derived from the Source LP preferred stock—shown as the EQF PRF STOCK in the charts below. The CDFI's common equity investment can be in the form of cash or current loans, but in this example, it has been taken out of cash.
- The SPV issues $200,000 of preferred stock—the EQF PRF STOCK—to the SOURCE LP Intermediary Platform (which purchases it).
- The SPV now has a $700,000 obligation to the CDFI, a $200,000 preferred stock obligation to the SOURCE LP, and a $100,000 investment by the CDFI in its common equity ("equity in SPV").
- The SPV can upstream the $200,000 in cash proceeds from the EQF PRF STOCK to the CDFI. This increases both the CDFI's assets, and its equity by $200,000.

Step Four

- The first two columns show what the parent of the CDFI looks like on an alone (unconsolidated) basis. On the asset side, it has switched a $1 mm loan receivable for a $700,000 note from its 100% owned SPV subsidiary, $200,000 from the EQF preferred stock issue, and a $100,000 investment in the common equity of its SPV. Note: we also see the upstreaming of the $200,000 in cash from the EQF PRF STOCK that the SPV has issued. There is no change on the liability side—there is no profit or loss in the transaction with the SPV, and unless the debt is paid down, the liabilities remain the same. The primary benefit to the Parent Alone is that its liquidity ratio improves from 18.75 to 19.51%. If it wishes to use the proceeds of the EQF PRF STOCK to pay down debt, then the leverage ratio improves from 3.0 to 2.9.

- The second two columns show the CDFI on a consolidated basis. Because the CDFI is lending to the borrower on a consolidated basis, and the SPV is 100% owned and consolidated, the borrower's whole $1mm shows up on the CDFI balance sheet.
- Also in consolidation, all of the bullet points in Step Three are eliminated, except for the upstreaming of the proceeds of the EQF PRF STOCK purchased by the Source LP Intermediary Platform. Due to this upstreaming, the CDFI is now $200,000 ahead in cash AND equity.

EXHIBIT 1

	THE BEGINNING				STEP ONE	
	CDFI ASSETS	CDFI LIABILITIES & NET ASSETS	BORROWER ASSETS	CDFI LOAN TO BORROWER	CDFI ASSETS	BORROWER LIABILITIES
	CASH AND INVESTMENTS; LOANS	LIABILITIES; NET ASSETS		LOAN	CASH AND INVESTMENTS; Loan Receivable from Borrower; OTHER CDFI LOANS	Loan Payable to CDFI
	CDFI Assets	CDFI Liab & NW	Borrower	Loan	CDFI Assets Liab NW	Borrower
TOTAL ASSETS	$8,000,000		$3,000,000	$1,000,000	$8,000,000	$4,000,000
LIABILITIES		$6,000,000	NA		$6,000,000	NA
EQUITY		$2,000,000	NA		$2,000,000	NA
CASH & INVESTS	$2,500,000		NA		$1,500,000	NA
LIQUIDITY*	31.25%		NA		18.75%	NA
LEVERAGE		3.00	NA		3.00	NA

* Cash and Investments to Total Assets

EXHIBIT 1

	STEP TWO		STEP THREE	
	CDFI ASSETS	CDFI's SPV	SPV Asset Side	SPV Liability Side
	CASH AND INVESTMENTS; Loan Receivable from Borrower; OTHER CDFI LOANS	CDFI cash equity in the new SPV	Loan Receivable from Borrower in SPV portfolio	SPV Debt Owed to CDFI; EQF PRF STOCK
	CDFI	CDFI's SPV	SPV Assets	SPV Liabs & Eq
TOTAL ASSETS	$8,000,000	$100,000	$1,000,000	
LIABILITIES	$6,000,000			$700,000
EQUITY	$2,000,000			$300,000
CASH & INVESTS	$1,400,000	$100,000		
LIQUIDITY*	17.50%			
LEVERAGE	3.00			

* Cash and Investments to Total Assets
CDFI puts $100k into SPV common equity

$300k Equity in SPV = $100k from CDFI common and $200k in preferred issue

EXHIBIT 1

STEP FOUR

	CDFI Assets Unconsolidated	CDFI Liabilities Unconsolidated	CDFI Assets w/ SPV Consolidated	CDFI Liabilities w/ SPV Consolidated
	CASH AND INVESTMENTS	LIABILITIES	CASH AND INVESTMENTS	LIABILITIES
	$ FROM EQF PRF	NET ASSETS	$ FROM EQF PRF STK	$ FROM EQF PRF
	SPV Debt Owed to CDFI (Receivable)		Loan Receivable from Borrower	NET ASSETS
	OTHER CDFI LOANS		OTHER CDFI LOANS	
	CDFI Assets-Parent Only	CDFI Liabs-Parent Only	CDFI Consol Assets	CDFI Consol Liabs
TOTAL ASSETS	$8,000,000		8,200,000	
LIABILITIES		$6,000,000		6,000,000
EQUITY		$2,000,000		2,200,000
CASH & INVESTS	$1,600,000		1,700,000	
LIQUIDITY	19.51%		20.73%	
LEVERAGE		3.00		2.73

The CDFI sells $1mm loan to SPV and gets $200k in cash upstreamed and $700k note from SPV. Keeps $100k investment in SPV supporting the loan.

The CDFI $100k equity cash in the SPV converts from equity investment to cash in consolidation

EXHIBIT 1

Annual Report 2020 Appendix III: Enabling the CDFI to Take More Community Risk

Introduction

Does the proposed market-sourced equity program end up creating a "good bank/bad bank" choice for a CDFI, which reduces the flow of non-conventional credit to low-income borrowers? No. Possible, yes, but unlikely. It is much more likely that the contrary will occur. In the following exercise we show a CDFI how and why the incentives favor expansion of non-conventional as well as conventional loans to low-income borrowers. We show how this program can optimize scarce restricted grant resources.

We show a start-up CDFI in three different scenarios. **Scenario A** shows the CDFI making first mortgages and second mortgages without the benefit of the using the proposed preferred stock program. Scenario B shows the CDFI using the preferred stock program. It does exactly the same loan volume for both the first and second mortgages, and gets the same level of operating and capital grants. As the results below show, **Scenario B** produces significant improvements in liquidity (cash and investments), leverage, debt, ability to service debt and net assets. We then create a **Scenario C** in which the CDFI uses the preferred stock and doubles the number of second mortgages it makes, while leaving the first mortgage volume the same. Despite the doubling of volume in the second mortgage segment, **Scenario C** still comes out with significant improvements in liquidity, leverage, debt, ability to service debt and net assets.

KEY INDICATORS AT THE END OF 7 YEARS FROM INCEPTION								
Scenarios	**Net Assets**	**Debt**	**Debt/Net Assets**	**1st Mortgages**	**2nd Mortgages**	**Cash & Investments**	**Surplus**	**Yrs to Repay Debt**
Scenario A No Preferred	**$2,774,360**	**$10,900,000**	**3.96**	**$13,600,000**	**$1,260,000**	**$655,626**	**$774,360**	**15**
Scenario B With Preferred	**$5,222,878**	**$9,400,000**	**1.82**	**$13,600,000**	**$1,260,000**	**$1,604,144**	**$502,878**	**6**
Scenario C Preferred and Twice the $ in 2nd Mortgages	**$5,520,254**	**$10,100,000**	**1.94**	**$13,600,000**	**$2,520,000**	**$1,316,049**	**$532,504**	**8**

What we will see when we go through the details is that the presence of the market-sourced equity reduces the need for grant support for the more conventional loans (first mortgages), and thereby increases the availability of grant resources for the kinds of credit that cannot be financed any other way (in this case, second mortgages). While the preferred stock is going to be more expensive than the debt as well as the grants they replace, the impact is reduced by the amount of liquid earning assets that the CDFI is able retain as well as the blended cost of capital. Of at least equal importance is the reduced pressure on cash flow when debt amortization kicks in. Another way to look at it is that for every dollar of preferred stock that is issued, a dollar of restricted capital grants and/or unrestricted operating grants is saved.

Key Assumptions for the Three Scenarios

We have a start-up CDFI with $2,000,000 in total assets, of which $100,000 is in cash, $400,000 is unrestricted investments, and $1,500,000 is in restricted investments (the funds are restricted to capitalizing loans and providing homeownership counseling). There is no debt. Net Assets consists of $1,500,000 in restricted funds and $500,000 in restricted funds.

EXHIBIT 1

We have the same assumptions for each of the following:

- There are 68 30-year fixed rate first mortgages amounting to $13,600,000 at a rate of 3.5%, with an average charge-off rate of 1%.
- There are 42 20-year fixed rate 2nd mortgages amounting to $1,260,000 at a rate of 6% with an average charge-off rate of 2.5%. Scenario C doubles the number of loans originated.
- There is an overall delinquency rate of 4%.
- The (long-term) investment rate is 1%.
- Long term debt is borrowed at a rate of 3%. The loans are structured as 5-year bullets, amortizing in full at the end of the fifth year.
- The preferred stock has a dividend of 6%.
- There are 1-1.5 lending staff and total operating expenses starting at $392,700 per year inflating at 2% a year.
- Accounts payable are 18.5% of operating expenses.
- The CDFI receives $200,000 a year in operating grants and $300,000 a year in capital grants (restricted to capitalization of loans and homeownership counseling).

Where the Scenarios differ: Scenario A, relies entirely on its restricted funds to capitalize the loans it originates. It capitalizes first mortgages at 20% and second mortgages at 25% of the total with the remainder being borrowed long term. This results in increasingly large amounts of cash being deployed from the restricted funds for the purpose of lending. This growth reduces the amount of funding that is available for release for other purposes—such as homeownership counseling. In order to conserve cash, Scenario A is forced to release restricted funds at a comparatively low level—$75,000 per year—and to borrow more. The result is an accelerated diminution of cash, an accelerated leverage—approaching 4:1—and a decreasing capacity to service the debt. Indeed, at the end of 7 years, Scenario A has a cash flow capacity to service its debt only over a 15-year period—when the average life of its borrowings is 5 years. This sort of mismatch is not sustainable.

Because Scenarios B and C capitalize the first mortgages entirely with the preferred stock, they free up the CDFIs restricted funds to be deployed only for the smaller second mortgages. This allows space for releasing much more of the restricted funds for other purposes like homeownership counseling: the CDFI now has room to release funds at a rate of $300,000 per year, up from $75,000. Moreover, both Scenarios B and C show cash and investments well in excess of $1mm at the end of the period, as against the rapidly declining and soon to be depleted reserves in Scenario A.

There are quite a few additional moving parts in establishing whether the preferred stock works or not: loan pricing, staffing, the nature of restrictions, debt maturities, the cost of fund-raising to name just a few. We can provide a simple annual calculator for running these scenarios, with a manual, if they wish. In Phase II, we will provide a program that enables the same kind of what-if analysis on a more detailed quarterly basis, for the purpose of establishing budgets. Both are derived from the Sustainable Mission System programs developed by Carsey, and they come with manuals.

EXHIBIT 1

2020 Annual Report Appendix IV C-Corp Version 1 of The Roll-Up Software (*See Exhibit 2*)

Outline of the Second Quarter 2021 Report on the CDFI Equity Project

Key developments and related work during the third quarter of 2021 were as follows:

The CDFI SPV forecasting

1. The forecasts for the SPVs, which we provided to the CDFIs in 1Q 2021, showed the loan volume and funding requirements of the SPVs plus the investment volume for the SOURCE Fund. In the following discussions we were presented with a number of questions. The answers were put into a Frequently Asked Question memo (attached **FAQ-6.1.21**).
2. We developed an individualized Roll-Up Template so that each CDFI could run its own SPV scenarios (see attached **__TEMPLATE_MASTER.ROLL-UP_DISTRIBUTION**). The Template included line by line instructions. These Templates were sent out to the CDFI participants along with the new FAQs and the earlier individual CDFI CASE STUDIES and Forecasts.
3. We set up ZOOM sessions to go through the assumptions and work the Template for those CDFIs who wanted to change their Survey assumptions. So far, the sessions have produced material increases in the projected loan volume being financed by the SOURCE Fund.

The Rating Agency challenge

1. We had structured the initial SOURCE Fund in a way that would minimize risk exposure to SOURCE preferred investors in the early years. We did this because there is insufficient information available on the liquidation value of CDFI loan portfolios or the magnitude of CDFI organizational liquidation. In discussions with S&P, it was clear that this data would be needed regardless of cash coverage or risk. At present rating agencies appear to give defaulted subordinated debt and quasi-equity instruments zero valuation. This indicates that we would not be able to arrange a rating for the SOURCE Fund Preferred Stock at inception; that we would have to develop this data first over a period of time—perhaps 3 to 5 years.
2. We are taking two paths to developing this information: (a) under the Freedom of Information Act, we have asked the CDFI Fund to provide a list of names and financial data on CDFIs over the past 15 years in order to assess organizational performance (see attached financial data being requested **foia data request**); and (b) we are beginning a search for data on CDFI loan portfolio liquidations (by asset class). We are using D&B data to assist us in the assessment of organizational performance. The combination of these two efforts, combined with a CDFI reporting protocol for participants, should provide indications to the rating agencies which should enable our original "over-collateralization" structure to work.

The potential need for Interim steps towards the capital markets

1. One of the chief questions that has arisen is the extent to which the SPVs will pay income tax on the profits they make on the loans: wouldn't it make more sense for the SPVs to be structured as pass-through entities for taxes, where the taxes are passed through to the SOURCE Fund? Of course, the SOURCE Fund would need to be compensated for the additional tax burden. We set out to develop options which enable this pass-through to occur. The law firm of Orrick, Herrington, and Sutcliffe has been exceptionally helpful in outlining the options. Our original outline of the options is attached in **THREE PROPOSED STRUCTURES**.

2. Combined with the rating agency challenge, this tax issue has militated in favor of a stepped approach to gaining access to the conventional capital markets. We are reviewing the Interval Fund concept as an optimal first step.

Meeting with Potential Investors

1. We had a ZOOM meeting with potential investors on April 2nd. Included on the call were JPM Chase, Rockefeller, Goldman Sachs, MacArthur, Kellogg, Ford, Kresge, Robert Wood Johnson, Deutsche Bank. (See attached **Agenda 4-2-21 CDFI Equity Investors Meeting.**)
2. The presentation covered the major objectives and the proposed structures. It was too early to establish pricing or term features for the preferred and common instruments. The primary focus was on whether unsecured foundation and bank lenders would be concerned about loans being placed in a separate subsidiary. There are easy solutions to this problem (i.e., floating liens, joint and several signatories, cross guarantees). At present we are aware of no other way to bring conventional capital market funding into a non-profit than by creating a for-profit entity to receive it.
3. The next meeting with potential investors will occur once the final SOURCE Fund structural options and the forecast are finalized.

Outline of the Third Quarter 2021 Report on the CDFI Equity Project

Key developments and related work during the third quarter of 2021 were as follows:

The CDFI SPV forecasting

1. We completed the survey and forecast work with the participating CDFIs, and completed two forecast model trainings. There were some upward revisions in the estimated volume.
2. The forecasts for the SPVs show combined loan volume of about $2 Billion over the 10-year forecast period, with combined amortization of just under $1 Billion. The volume is spread over the single family, multifamily, commercial real estate, community facility and small business asset classes, and includes permanent, mini-perm and construction loans.
3. The preferred equity investment by the Source (the Fund) into the SPVs (and therefore the CDFIs on a consolidated basis) rises to a little over $200mm by the end of the period.
4. We completed the final MASTER_ROLL-UP, which includes the forecast assumptions and financials of each SPV (with strict confidentiality). The program rolls their combined cumulative equity needs up into the Source.
5. The bulk of the activity on the MASTER_ROLL-UP program involved QCing and adjusting for the additional structures that the Source may take (see below).

The potential need for interim structural steps on the way to the public capital markets

1. As noted in the 2Q report, our original working structure for the Source was a C-Corp and the SPVs were also to be C-Corps. Both the Source and the SPVs would be paying income tax. This structure assumed that the preferred stock issued by the Source would be ratable at the outset and that we would be immediately targeting the “plain vanilla” preferred stock investor in a $250 billion market. We are still including this structure in the report, but with the absence of crucial performance data on the valuation of CDFI loan portfolios from the standpoint of liquidation, the potential of a rating is 5-7 years of data capture in the future.

2. The rating issue has made it clear that: (a) the initial platform will involve a pass-through structure for the SPVs and, hence they will not be taxable entities; (b) the Source (Fund) may be a pass-through structure as well; and (b) the funding of the Source will be accomplished through a private placement.
3. With the assistance of Cohn Reznick on the accounting side and Orrick, Herrington, and Sutcliffe on the legal side we continue to explore the optimal structure for the Source. We are presently reviewing Interval Funds, BDCs and a range of real estate lending REITs.
4. While this platform may defer access to the plain vanilla capital markets, it will have the benefit of reducing the cost of the equity vis-à-vis what was shown in our individualized forecasts in the 2Q.

Data Development

We are pursuing data capture that will address the challenge of evaluating the liquidation value of CDFI loan portfolios. As noted in the 2Q report, we are taking two paths to developing this information: (a) under the Freedom of Information Act, we have asked the CDFI Fund to provide a list of names and financial data on CDFIs over the past 15 years in order to assess organizational performance; and (b) we are working with D&B data to develop an outline of organizational longevity in the CDFI field. While neither will provide the full measure of metrics needed to arrive at conclusive valuations, they help initiate the process. We believe that the performance of the CDFI/SPV portfolios over a 5-7 year period will ultimately provide the drivers for the kind of equity rating that we believe underwriting risk in the CDFI field warrants.

Next Steps

1. We are presently reviewing offering memoranda and annual reports of a range of funds that invest in broadly similar assets, including subordinated debt and preferred stocks. The purpose is not only to evaluate investor risk, but also to develop parameters for pricing of the common and the preferred stock or interests at the Source level. We expect to begin individual discussions with interested investors by the end of the year.
2. We have outlined the blueprint for the final report on the CDFI Equity Project. In addition to the finalizing the structures of the Source and the SPVs and the related pro forma financials, we are finalizing the board or governing composition, operating processes, staffing, reporting, monitoring and remedies.

Fourth Quarter and 2021 Report on the CDFI Equity Project

Key developments and work during 2021 were as follows:

The CDFI SPV forecasting

1. We completed the survey and forecast work with the participating CDFIs, and completed two forecast model trainings. There were some upward revisions in the estimated volume.
2. The forecasts for the SPVs show combined loan volume of about $2 Billion over the 10-year forecast period, with combined amortization of just under $1 Billion. The volume is spread over the single family, multifamily, commercial real estate, community facility and small business asset classes, and includes permanent, mini-perm and construction loans.
3. The preferred equity investment by the Source (the Fund) into the SPVs (and therefore the CDFIs on a consolidated basis) rises to a little over $200mm by the end of the period.
4. We completed the final MASTER_ROLL-UP, which includes the forecast assumptions and financials of each SPV (with strict confidentiality). The program rolls their combined cumulative equity needs up into the Source.

5. The bulk of the activity on the MASTER_ROLL-UP program involved QCing and adjusting for the additional structures that the Source may take (see below).

The potential need for interim structural steps on the way to the public capital markets

1. As noted in an earlier quarterly report, our original working structure for the Source was a C-Corp and the SPVs were also to be C-Corps. Both the Source and the SPVs would be paying income tax. This structure assumed that the preferred stock issued by the Source would be ratable at the outset and that we would be immediately targeting the "plain vanilla" preferred stock investor in a $250 billion market. We are still including this structure in the report, but with the absence of crucial performance data on the valuation of CDFI loan portfolios from the standpoint of liquidation, the potential of a rating is 5-7 years of data capture in the future.
2. The rating issue has made it clear that: (a) the initial platform will involve a pass-through structure for the SPVs and, hence they will not be taxable entities; (b) the Source (Fund) may be a pass-through structure as well; and (b) the funding of the Source will be accomplished through a private placement.
3. With the assistance of Cohn Reznick on the accounting side and Orrick, Herrington, and Sutcliffe on the legal side we continue to explore the optimal structure for the Source. We are presently reviewing Interval Funds, BDCs and a range of real estate lending REITs.
4. While this platform may defer access to the plain vanilla capital markets, it will have the benefit of reducing the cost of the equity vis-à-vis what was shown in our individualized forecasts in the 2Q.

Data Development

We are pursuing data capture that will address the challenge of evaluating the liquidation value of CDFI loan portfolios. As noted in the 2Q report, we are taking two paths to developing this information: (a) under the Freedom of Information Act, we have asked the CDFI Fund to provide a list of names and financial data on CDFIs over the past 15 years in order to assess organizational performance; and (b) we are working with D&B data to develop an outline of organizational longevity in the CDFI field. While neither will provide the full measure of metrics needed to arrive at conclusive valuations, they help initiate the process. We believe that the performance of the CDFI/SPV portfolios over a 5-7 year period will ultimately provide the drivers for the kind of equity rating that we believe underwriting risk in the CDFI field warrants.

Next Steps

1. We are presently reviewing offering memoranda and annual reports of a range of funds that invest in broadly similar assets, including subordinated debt and preferred stocks. The purpose is not only to evaluate investor risk, but also to develop parameters for pricing of the common and the preferred stock or interests at the Source level. We expect to begin individual discussions with interested investors by the end of the year.
2. We have outlined the blueprint for the final report on the CDFI Equity Project. In addition to finalizing the structures of the Source and the SPVs and the related pro forma financials, we are finalizing the board or governing composition, operating processes, staffing, reporting, monitoring and remedies.

Legal Issues – Responses to key questions

We have addressed a number of key legal issues in the 4th quarter.

1. If a CDFI is making loans that are NOT considered to be generating unrelated business taxable income, does their status change to taxable if they are sold to a for-profit SPV LLC or does their status stay the same?

__Legal__: The SPV LLC will be structured as a flow-through entity (i.e., partnership) for tax purposes that will allocate net profit and net loss to its equity holders each year, including the CDFI and the Fund. Whether or not cash is distributed, the portion of SPV net profit allocated to the CDFI and the Fund could be taxable to the party receiving the allocation, depending on a variety of factors:

(a) CDFI: The portion of SPV net profit that is allocated to the CDFI from the loans made by the CDFI and transferred to the SPV is not expected to generate UBTI to the CDFI if such net profit would not have been UBTI if directly received by the CDFI (i.e., is within the CDFI's mission).

(b) Fund: The Fund is currently expected to be structured also as a flow-through entity (i.e., partnership) for tax purposes, and will also allocate net profit and net loss at the Fund level to its equity investors—its equity investors will have different concerns depending on their make-up. In addition, the allocation of net profit and net loss is expected to reflect allocations to each class of equity holders based on assumption of economic risk, with the first allocation of net profit/loss to the preferred in light of their liquidation preference. Care must also be taken not to run afoul of the tax rules that prohibit shifting of income from taxable to non-taxable investors.

In terms of individual concerns:

(i) U.S. Taxable investors: Whether or not cash is distributed, these investors will be subject to tax on the net profit allocated to them. Frequently, fund partnership agreements will include a tax distribution provision that authorizes the General Partner to make tax distributions to investors to cover their tax liabilities. For this to work, we would expect that the SPV LLC Agreement also needs to include provisions that permit the SPV to make tax distributions to the Fund out of current cash to cover the tax distributions at the Fund level.

(ii) U.S. Tax-Exempt Investors (subject to UBTI): Unless the debt investments by the CDFI and its SPV are also within the mission of these investors, U.S. Tax-Exempt Investors will be exposed to UBTI relating to the net profit allocated to them from the Fund and may also seek tax distributions to cover. In a typical PE fund, UBTI-sensitive investors set up corporate blockers so that the blocker pays a corporate tax and files any necessary tax returns, rather than assume that burden at the investor level. Utilizing a corporate blocker results in additional tax drag, but it is a structuring detail that may be helpful to keep in mind. In addition, should the Fund raise debt to finance part of its investment activity, that debt may also present UBTI issues for tax-exempt investors (there may be an exception for certain short-term debt but that would need to be researched once we have more information).

(iii) Non-U.S. investors: Similar to UBTI-sensitive investors, non-U.S. investors are sensitive to the additional tax exposure to "effectively connected income" (ECI) in pass-through structures and will use corporate blockers so that the blocker pays the tax and files any necessary tax returns rather than expose the non-U.S. investor to jurisdiction in the U.S. In addition, since the SPV will be buying loans as a captive of its related CDFI, the non-U.S. investors run the risk of being viewed as being engaged in a trade or business in the U.S. by virtue of their investment in the SPV through the Fund. A blocker (and its tax drag) would also need to be considered to manage this risk.

2. If the loans are deemed to generate unrelated business taxable income, does the parent CDFI (100% owner) have to pay the income taxes on the LLC's earnings? If so, can the CDFI reduce the amount of these income

taxes by expenses that it incurs at the parent level—or must they be paid in full. Where would the CDFI show this on its operating statement and balance sheet?

Legal**: If the loans are deemed to generate UBTI for the CDFI, the CDFI would need to pay that tax (and file the specific UBTI returns) on its own behalf. Once the CDFI transfers those loans to the SPV, the SPV would allocate net profit/loss annually to its investors as described above. In the case of the CDFI, the net profit would be UBTI (just as it would have been if those loans were held directly by the CDFI) and might be covered by tax distributions by the SPV to the CDFI.* ***[Accounting questions regarding how amounts will be reflected on operating statements and balance sheets are reserved for discussions with your accountants.]

3. If we want to eliminate concerns about income taxes entirely at the SPV and CDFI levels regardless of whether the lending activity is deemed UBTI or not, can we pass the tax expense (and liability) back to the common shareholders or partners in the Fund via the preferred interests they have bought from the SPVs? While it is true that the Fund only holds a preferred interest in the SPV which is NOT a controlling interest, is it possible to make absorption of the potential tax expenses by the Fund a part of the conditions of the purchase of the preferred interests?

   ***Legal**: As discussed in (1) above, typically the tax distributions would be made with some of the cash held by the entity generating the net profit, in this case the SPV (i.e., the SPV would make tax distributions to each of the CDFI and the Fund as required to meet their current tax obligations). This would have the effect of each member of the SPV bearing the expense of the tax pro rata based on their equity interests—it would be unusual to have one member (i.e., the Fund as preferred equity) bear the tax of the other member (i.e., the CDFI, and doing so might result in additional income to the CDFI for the benefit it receives from the Fund covering the CDFI's tax). However, as noted above, due to the preferences held by the preferred equity, it is likely to be allocated net profit/loss first and there may be relatively little allocated to the CDFI in any event. This requires further analysis based on the business terms and your modeling—we are available to discuss the complexities of these allocations with you at the appropriate time.]*

4. If the Fund could absorb the tax expenses, several questions arise:

   (a) What would we call the tax expense that is being up streamed from the SPVs, and where would we put it on the Fund's operating statement? ***[Reserved for the accountants]***

   (b) Could this tax expense be reduced by the operating and other expenses of the Fund?

   ***Legal**: The Fund will be allocating the net profit at the Fund level (i.e., taking into account all of its investments in the various SPVs, activities and expense) to each of its investors, so Fund expenses will be taken into account as part of that allocation.*

   (c) Legally, the Fund can ask for different yields on the preferred distributions or dividends from each of the SPVs—so can it recover the cost of its payment of UBTI taxes by asking for a higher yield from year to year?

***Legal**: Yes, you and the CDFI can price each SPV investment on its own, recognizing that coverage of UBTI (and other amounts) may vary from investment to investment.*

(d) Would it make more sense for the Fund to establish a long-term lending facility that pays the taxes for the SPV, and that can be converted into a preferred interest over a set period of time?

***Legal:** While PE funds frequently use leverage to boost returns, this added complexity would seem to be more than is needed if there is current cash from the SPV loans to cover.*

Second Quarter 2022 Report on the CDFI Equity Project

During the second quarter of 2022, we did the following:

1. Developed two additional scenarios for the SOURCE Fund showing two different configurations for payment of UBTI.
2. Continued the QC of the first three scenarios.
3. Began running scenarios for different risk and rate conditions and different liquidity structures for the SPV and the SOURCE Fund preferred interests.
4. Revised and began work on the final ten-year aggregated financial performance of the participating CDFIs.
5. Initiated work on the blueprint (draft) Offering Memorandum for potential investors in the common equity of the SOURCE Fund.

For the third quarter, we are planning to accomplish the following:

1. Discuss pricing and structure with funders and with contacts in the investment banking and private equity sectors based on the blueprint Offering Memorandum.
2. Adjust pricing, structure, and forecasts to suit the needs of potential investors.
3. Convene a meeting with the participating CDFIs.
4. Convene a meeting with participating CDFIs, funders, and investors.
5. Complete the Report.
6. Present the findings at a Federal Reserve Bank venue.

Exhibit 2. C-Corp Version 1 of the Roll-Up Software

*The following summary is from the APPENDIX IV of the 2020 Annual Report of the CDFI Equity Project***.**

Structure of the Roll-Up Forecasting Software

Portal

- Each participating CDFI has its own portal which enables it to keep its information secure
- The CDFI and the SOURCE communicate with each other primarily through the portal
- This includes exchanges of forecasts, portfolio reports, audits, loan sales and purchases, equity issuance and redemption and correspondence.

Roll-Up

- SOURCE inputs the data from the surveys and from participant financials
- SOURCE generates the SPV financials which are posted to the participant portal
- Participants adjust their SPVs to fit their plans and forecasts and submit them to SOURCE
- SOURCE reruns the SPVs and generates the SOURCE financials
- The ROLL-UP captures the base case CDFI SMSST stress test forecasts automatically (see below)
- The ROLL-UP captures the SMS participant forecasts automatically (see below)

Forecasts of the CDFI Loan Volume

- Using its SMSST CDFI stress test program, SOURCE produces a base case 7 year forecast for each participating CDFI and posts it to each individual portal
- Participants can use the SMS Sustainable Mission software to develop their own forecasts, or have SOURCE do it on their behalf. The SMS software will produce Parent Alone statements as well as consolidated statements. The consolidated statements may be compared with the base case forecasts.

Monitoring

- The series of forecasts generated for the Roll-Up are used by the SOURCE as the basis for evaluating the origination and performance of the loans in the SPV portfolio as well as the performance of the SPV itself.

EXHIBIT 2

Annual Report 2020 Appendix V Screenshots of the Roll-Up Software

THE LOAN INPUT PAGE

SURVEY AND OTHER INPUTS										
Monthly Fixed Payment Type 1	Amount of Loan	Interest Rate	Term in Months	Fees at origination	Annual Fees	[Reserved]	Monthly Payment			
	$500,000	6.00%	240	$20,000	$1,500	0	$3,582.16			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Number of loans made	3	5	11	12	13	15	16	18	19	21
$ Volume	$1,500,000	$2,500,000	$5,500,000	$6,000,000	$6,500,000	$7,500,000	$8,000,000	$9,000,000	$9,500,000	$10,500,000
Cumulative Gross Volume	$1,500,000	$4,000,000	$9,500,000	$15,500,000	$22,000,000	$29,500,000	$37,500,000	$46,500,000	$56,000,000	$66,500,000
Borrower and Project Data	Avg Borrower Credit Score	LTV for this Loan	Combined LTV	Avg Debt Service to Income	Interest Coverage	Downpayment or Borrower Equity %	Revenue or Household Income	Borrower Total Assets	Years in Business	Years as Customer
	0	0.00%	0.00%	0.00%	0.00	0.00%	$0	$0	0	0
Loan and Demographic Category	Single Family (1) / not SF (0)	Small Business (1) / not SB (0)	Multifamily (1) /not MF (0)	Community Facility (1) / not CF (0)	Commercial Real Estate (1)/no CRE (0)	Construction/Development (1)	Senior (1) or Subordinated (0)	New Loan (1) / Existing Loan (0)	AMI%	Low Income Community (1) / not (0)
	0	0	0	0	0	0	0	0	0.00%	0
	Choose only one of these five categories for each loan									
Identify the year(s) in which the following events occur	1	2	3	4	5	6	7	8	9	10
Probability of Prepayment: % of principal	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	5.00%	15.00%	2.00%	0.00%
Probability of default in which year	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Avg % Principal Charged-off for this type of loan	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Avg % of Principal recovered for this type of loan	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Percentage of Loan principal delinquent during year	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

This is the initial data set for the types of loans that the CDFIs will sell to their SPVs. There are nine types of loan options that the CDFIs can enter: 3 kinds of fixed monthly payments, an equal principal amortization, two types of bullet loans, a balloon loan and two types of interest only/full amortization loans. These 9 loan types can be used for 5 asset categories: home mortgage, small business, multifamily, community facility, commercial real estate. And each of these can be sorted by whether they are senior or subordinate, construction/development and new or existing loans. There are also standard data capture fields for credit risk and demographics. The portfolio reporting protocols will align with these inputs.

Because the whole Roll-Up is built on these initial loan inputs, the impact of a single change in the size, term, rate, type, or volume of lending can be seen instantaneously at the SPV and the SOURCE level. It enables precision in the design, pricing, and funding of loans across all portfolios.

The need to aggregate loans and lenders in order to get to scale is the essential driver for the need for this level of precision. But it is also necessary for ensuring proper diversification of term, risk, and business category.

EXHIBIT 2

THE CONTROL ROOM SECTION OF THE CORPORATE FINANCE (CORPFIN) PAGE

KEY INDICATORS FROM THE SPV PAGE

CONTROL ROOM	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Loan Volume #		11	23	37	49	53	65	74	82	84	101
Loan Volume $		$8,127,000	$17,254,000	$26,881,000	$37,308,000	$39,635,000	$49,262,000	$56,189,000	$62,016,000	$65,643,000	$76,770,000
Gross Loans Outstanding, Ending Balance		$7,550,565	$22,929,387	$45,456,590	$74,158,908	$100,995,166	$131,939,960	$163,230,905	$192,523,261	$218,188,163	$246,415,021
Total Assets		$7,728,787	$22,592,933	$46,161,679	$71,493,234	$101,937,166	$134,075,794	$167,556,705	$188,708,260	$220,228,160	$250,436,202
Short Term Debt		$944,072	$1,819,905	$4,917,505	$7,634,539	$11,357,970	$14,108,986	$19,092,878	$23,309,805	$30,012,534	$35,719,543
Long Term Debt		$3,796,793	$12,421,261	$24,306,728	$35,858,480	$51,625,258	$68,793,977	$83,809,205	$87,782,641	$101,158,247	$117,229,806
Total Debt		$4,740,865	$14,241,167	$29,224,233	$43,493,019	$62,983,228	$82,902,963	$102,902,083	$111,092,446	$131,170,781	$152,949,349
Preferred Equity Outstanding		$1,510,113	$4,585,877	$9,091,318	$14,831,782	$20,199,033	$26,387,992	$32,646,181	$38,504,652	$43,637,633	$49,283,004
% to Gross Loans Outstanding, End of Year	20%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Common Stock A Outstanding		$755,057	$2,292,939	$4,545,659	$7,415,891	$10,099,517	$13,193,996	$16,323,091	$19,252,326	$21,818,816	$24,641,502
% to Gross Loans Outstanding, End of Year	10%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Common Stock B Outstanding		$193,877	$510,088	$911,962	$1,580,386	$2,414,840	$3,395,107	$4,471,570	$5,394,889	$6,412,449	$7,525,249
% to Gross Loans Outstanding, End of Year		2.6%	2.2%	2.0%	2.1%	2.4%	2.6%	2.7%	2.8%	2.9%	3.1%
Revenue		$496,931	$1,319,848	$2,599,570	$4,120,299	$5,462,484	$7,243,258	$9,003,388	$10,731,403	$12,359,105	$14,434,085
Operating Expenses		$131,033	$154,498	$187,637	$226,756	$262,995	$313,810	$369,035	$430,035	$489,199	$574,123
Interest Expense		$193,814	$595,836	$1,218,534	$2,179,411	$3,094,225	$4,108,064	$5,105,744	$5,802,581	$6,956,921	$8,161,017
Operating Profit/(Loss)		$365,898	$1,165,351	$2,411,934	$3,893,543	$5,199,488	$6,929,448	$8,634,353	$10,301,367	$11,869,906	$13,859,962
Net Profit after Interest, Tax, and Dividend		($193,877)	($316,210)	($401,875)	($668,424)	($834,454)	($980,267)	($1,076,463)	($923,319)	($1,017,561)	($1,112,800)
Total Liabilities to Total Equity		2.22	2.13	2.24	2.07	2.19	2.20	2.22	2.07	2.15	2.17
Total Debt to Total Equity		1.93	1.93	2.01	1.83	1.93	1.93	1.93	1.76	1.83	1.88
Total Debt to Preferred Equity		3.14	3.11	3.21	2.93	3.12	3.14	3.15	2.89	3.01	3.10
% to Total Assets End of Year		19.54%	20.30%	19.69%	20.75%	19.82%	19.68%	19.48%	20.40%	19.81%	19.68%
Cash & Investments to Total Debt		6.05%	0.07%	4.76%	-3.53%	3.95%	5.01%	6.63%	-0.80%	4.07%	5.04%
Maximum LTD as a % of Total Debt for Loan Funding											
$ Amount of LTD as % of Gross Loans Outstanding	80%	62.8%	62.1%	64.3%	58.6%	62.4%	62.8%	63.0%	57.7%	60.1%	62.1%
Preferred Equity Raised to Fund Loans		$1,510,113	$3,075,764	$4,505,441	$5,740,464	$5,367,252	$6,188,959	$6,258,189	$5,858,471	$5,132,981	$5,645,372
Common Stock A Issued to Fund Loans		$755,057	$1,537,882	$2,252,720	$2,870,232	$2,683,626	$3,094,479	$3,129,095	$2,929,236	$2,566,490	$2,822,686
Short Term Debt Raised to Fund Loans		$1,000,000	$ 1,000,000	$ 3,500,000	$ 3,500,000	$ 5,000,000	$ 4,500,000	$ 7,500,000	$ 7,500,000	$ 11,000,000	$ 11,000,000
Long Term Debt Raised to Fund Loans		$4,688,900	$ 10,000,000	$ 15,000,000	$ 17,000,000	$ 24,000,000	$ 28,200,000	$ 30,000,000	$ 23,000,000	$ 36,000,000	$ 38,500,000
% Loan Volume Externally Funded		*89%*	*82%*	*86%*	*70%*	*87%*	*79%*	*78%*	*59%*	*79%*	*72%*
% STD & LTD to Gross Loans		*72%*	*68%*	*71%*	*66%*	*71%*	*71%*	*72%*	*68%*	*70%*	*71%*
Cash Flow Before Sweep and Injection		93,071	(593,741)	979,921	(3,596,611)	3,193,227	682,886	1,587,364	(8,633,341)	5,210,251	1,254,540
Common Stock B Issued		193,877	316,210	401,875	668,424	834,454	980,267	1,076,463	923,319	1,017,561	1,112,800
Cash Flow after Common Stock B Issued		286,948	(277,530)	1,381,796	(2,928,187)	4,027,681	1,663,153	2,663,827	(7,710,023)	6,227,812	2,367,340
Short Term Investments (Increase)		(30,000)	(100,000)	(1,400,000)		(1,700,000)	(1,000,000)		(900,000)	(300,000)	0
Short Term Investments Decrease				1,500,000			800,000	1,900,000			400,000
Final Cash Balance		256,948	(120,582)	1,361,214	(1,566,973)	760,708	2,223,860	6,787,688	(1,822,335)	4,105,477	6,872,817
Short Term Investment Balance		30,000	130,000	30,000	30,000	1,730,000	1,930,000	30,000	930,000	1,230,000	830,000
Monthly Fixed Payment Type 1		3	5	11	12	13	15	16	18	19	21
Monthly Fixed Payment Type 2		1	2	3	7	5	8	7	8	9	10
Monthly Fixed Payment Type 3		1	2	3	6	5	6	9	8	9	10
Equal Principal Amortization		1	4	5	4	5	6	7	8	9	10
Bullet Loan Type 1		1	2	3	4	5	6	7	8	9	10
Bullet Loan Type 2		1	2	3	4	5	6	7	8	2	10
Balloon Loan		1	2	3	4	5	6	7	8	9	10
Fully Amortizing Term Loan with IO Period Type 1		1	2	3	4	5	6	7	8	9	10
Fully Amortizing Term Loan with IO Period Type 2		1	2	3	4	5	6	7	8	9	10

Once the loan inputs are in, there are a set of assumptions that must be made by each CDFI about the rest of the SPV Operating Statement, Balance Sheet and Cash Flow. The assumptions work from the assets to the liabilities to the equity and then finally to the Control Room above where the CDFI makes the decisions about funding based on whether or not the SPV can be cash positive and hit all of its capital and liquidity targets. In the Control Room we also include the unit volume assumptions: they can be adjusted upward or downward to help the CDFI right-size the volume level and cash outflows. Initially these decisions will be made by the Center for Impact Finance team and adjusted to fit what the CDFIs want. Ultimately this exercise will be done by the CDFIs.

Note: Across the Roll-Up, the green fields are for inputs, the white fields are automatically calculated.

EXHIBIT 2

SPV OPERATING STATEMENT ON THE SPV PAGE

			#1									
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
OPERATING STATEMENT												
Income from Investments	1		$0	$900	$3,900	$900	$900	$51,900	$57,900	$900	$27,900	$36,900
Interest Revenue from Loans	2		$301,931	$919,948	$1,894,670	$3,104,899	$4,321,584	$5,749,358	$7,249,488	$8,794,003	$10,287,705	$11,924,685
Origination Fees	3		$175,500	$337,000	$572,500	$802,000	$837,500	$1,033,000	$1,168,500	$1,284,000	$1,279,500	$1,575,000
Management Fees	4		$19,500	$62,000	$128,500	$212,500	$302,500	$409,000	$527,500	$652,500	$764,000	$897,500
Other Revenues	5											
Total Revenues	6		$496,931	$1,319,848	$2,599,570	$4,120,299	$5,462,484	$7,243,258	$9,003,388	$10,731,403	$12,359,105	$14,434,085
Staff costs for SPV (paid to staff or to CDFI Parent)	7		$13,733	$34,852	$65,598	$102,277	$136,026	$184,301	$236,936	$295,295	$351,764	$433,938
Non-staff costs paid to CDFI parent	8		$86,700	$88,434	$90,203	$92,007	$93,847	$95,724	$97,638	$99,591	$101,583	$103,615
Professional fees for SPV-specific services	9		$30,600	$31,212	$31,836	$32,473	$33,122	$33,785	$34,461	$35,150	$35,853	$36,570
Provision for Losses			$275,354	$610,572	$985,278	$1,393,143	$1,558,179	$1,947,452	$2,249,903	$2,488,699	$2,593,133	$3,026,220
Interest Expense	10		$193,814	$595,836	$1,218,534	$2,179,411	$3,094,225	$4,108,064	$5,105,744	$5,802,581	$6,956,921	$8,161,017
Total Expenses	11		$600,201	$1,360,906	$2,391,448	$3,799,310	$4,915,399	$6,369,327	$7,724,682	$8,721,315	$10,039,253	$11,761,360
Net Profit before Tax and Dividends	12		-$103,270	-$41,058	$208,122	$320,990	$547,084	$873,932	$1,278,706	$2,010,088	$2,319,851	$2,672,725
Taxes	13		$0	$0	$64,518	$99,507	$169,596	$270,919	$396,399	$623,127	$719,154	$828,545
Net Profit After Tax	14		-$103,270	-$41,058	$143,604	$221,483	$377,488	$603,013	$882,307	$1,386,960	$1,600,697	$1,844,180
Preferred Dividends	15		$90,607	$275,153	$545,479	$889,907	$1,211,942	$1,583,280	$1,958,771	$2,310,279	$2,618,258	$2,956,980
Net Profit after Tax and Dividends	16		-$193,877	-$316,210	-$401,875	-$668,424	-$834,454	-$980,267	-$1,076,463	-$923,319	-$1,017,561	-$1,112,800
Total Operating Expenses	17		$131,033	$154,498	$187,637	$226,756	$262,995	$313,810	$369,035	$430,035	$489,199	$574,123
Total Financing Expenses (Interest, Taxes, Dividends)	18		$284,421	$870,989	$1,828,531	$3,168,825	$4,475,763	$5,962,263	$7,460,914	$8,735,987	$10,294,333	$11,946,542
Operating Profit (Before Interest and Losses) to Revenues	19		74%	88%	93%	94%	95%	96%	96%	96%	96%	96%
Net Profit Before Tax and Divs to Revenues	20		-21%	-3%	8%	8%	10%	12%	14%	19%	19%	19%
Net Profit After Tax to Revenues	21		-21%	-3%	6%	5%	7%	8%	10%	13%	13%	13%
Net Profit After Tax and Divs to Revenues	22		-39%	-24%	-15%	-16%	-15%	-14%	-12%	-9%	-8%	-8%
Net Profit After Tax to Avg. Assets	23		-1%	0%	0%	0%	0%	1%	1%	1%	1%	1%
Net Profit After Tax and Divs to Avg. Assets	24		-3%	-2%	-1%	-1%	-1%	-1%	-1%	-1%	0%	0%
Net Profit After Tax % of Common Stock	25		-11%	-1%	3%	2%	3%	4%	4%	6%	6%	6%
CDFI Preferred Stock Dividend Coverage (NPAT)	26		-7%	-1%	2%	1%	2%	2%	3%	4%	4%	4%

EXHIBIT 2

SPV BALANCE SHEET ON THE SPV PAGE

BALANCE SHEET												
$7,550,565												
Cash	26		$256,948	($120,582)	$1,361,214	($1,566,973)	$760,708	$2,223,860	$6,787,688	($1,822,335)	$4,105,477	$6,872,817
Short Term Investments	27		$30,000	$130,000	$30,000	$30,000	$1,730,000	$1,930,000	$30,000	$930,000	$1,230,000	$830,000
Accounts Receivable	28		$44,724	$118,705	$233,610	$370,746	$491,543	$647,222	$805,094	$965,745	$1,109,808	$1,295,747
Current Loans Receivable	29		$1,575,733	$3,823,677	$7,792,252	$11,781,367	$16,872,211	$22,708,455	$29,074,504	$34,987,992	$41,875,187	$39,940,856
Current Assets	30		$1,907,405	$3,951,800	$9,417,076	$10,615,139	$19,854,461	$27,509,538	$36,697,286	$35,061,403	$48,320,472	$48,939,419
Senior Loans	31		$5,974,832	$19,105,710	$37,664,338	$62,377,541	$84,122,955	$109,231,505	$134,156,401	$157,535,268	$176,312,976	$206,474,165
Subordinated Loans	32											
Loss Reserve	33		($153,449)	($464,577)	($919,734)	($1,499,447)	($2,040,251)	($2,665,248)	($3,296,982)	($3,888,411)	($4,405,288)	($4,977,383)
Net Loans	34		$5,821,383	$18,641,133	$36,744,604	$60,878,094	$82,082,704	$106,566,257	$130,859,419	$153,646,858	$171,907,688	$201,496,783
Other Assets	35											
Total Assets	**36**		**$7,728,787**	**$22,592,933**	**$46,161,679**	**$71,493,234**	**$101,937,166**	**$134,075,794**	**$167,556,705**	**$188,708,260**	**$220,228,160**	**$250,436,202**
Accounts Payable	37		$22,603	$26,651	$32,367	$39,115	$45,367	$54,132	$63,659	$74,181	$84,387	$99,036
Accrued Expenses	38		$23,109	$70,768	$148,568	$257,467	$363,656	$484,434	$606,199	$709,799	$836,415	$970,657
Taxes Payable	39		$0	$0	$5,000	$7,712	$13,144	$20,996	$30,721	$48,292	$55,734	$64,212
Short Term Debt	40		$944,072	$1,819,905	$4,917,505	$7,634,539	$11,357,970	$14,108,986	$19,092,878	$23,309,805	$30,012,534	$35,719,543
Current Portion of Long Term Debt	41		$677,041	$1,375,532	$3,114,534	$5,448,248	$8,233,222	$11,031,281	$14,984,772	$19,026,564	$22,624,394	$22,428,441
Current Liabilities	42		$1,666,825	$3,292,856	$8,217,975	$13,387,082	$20,013,358	$25,699,830	$34,778,229	$43,168,641	$53,613,464	$59,281,890
Long Term Debt	43		$3,796,793	$12,421,261	$24,306,728	$35,858,480	$51,625,258	$68,793,977	$83,809,205	$87,782,641	$101,158,247	$117,229,806
Other Liabilities	44											
Total Liabilities	45		$5,463,618	$15,714,117	$32,524,702	$49,245,561	$71,638,616	$94,493,806	$118,587,434	$130,951,282	$154,771,711	$176,511,695
CDFI Preferred Stock	46		$1,510,113	$4,585,877	$9,091,318	$14,831,782	$20,199,033	$26,387,992	$32,646,181	$38,504,652	$43,637,633	$49,283,004
CDFI Common Equity A	47		$755,057	$2,292,939	$4,545,659	$7,415,891	$10,099,517	$13,193,996	$16,323,091	$19,252,326	$21,818,816	$24,641,502
CDFI Common Equity B			$193,877	$510,088	$911,962	$1,580,386	$2,414,840	$3,395,107	$4,471,570	$5,394,889	$6,412,449	$7,525,249
Total CDFI Common Equity			$948,934	$2,803,026	$5,457,621	$8,996,277	$12,514,357	$16,589,103	$20,794,661	$24,647,215	$28,231,266	$32,166,752
Retained Earnings	48		-$193,877	-$510,088	-$911,962	-$1,580,386	-$2,414,840	-$3,395,107	-$4,471,570	-$5,394,889	-$6,412,449	-$7,525,249
Total Equity	49		$2,265,170	$6,878,816	$13,636,977	$22,247,672	$30,298,550	$39,581,988	$48,969,272	$57,756,978	$65,456,449	$73,924,506
Total Liabilities & Equity	**50**		**$7,728,787**	**$22,592,933**	**$46,161,679**	**$71,493,234**	**$101,937,166**	**$134,075,794**	**$167,556,705**	**$188,708,260**	**$220,228,160**	**$250,436,202**
Reconciliation			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Ratio	51		1.14	1.20	1.15	0.79	0.99	1.07	1.06	0.81	0.90	0.83
Quick Ratio	52		0.17	0.00	0.17	(0.11)	0.12	0.16	0.20	(0.02)	0.10	0.13
Debt to Equity	53		2.39	2.27	2.37	2.20	2.35	2.37	2.41	2.25	2.35	2.37
Debt to CDFI Preferred	54		3.59	3.41	3.56	3.30	3.53	3.56	3.61	3.38	3.52	3.56
CDFI Preferred % to Equity	55		0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
Loss Reserve to Total Loans	56		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Provision of Losses to Loss Reserve	57		1.79	1.31	1.07	0.93	0.76	0.73	0.68	0.64	0.59	0.61
Charge-offs to Provision for Losses	58		0.44	0.62	0.80	0.96	1.22	1.33	1.49	1.67	1.88	1.89
Delinquent loans to Total Loans	59											
Delinquent Loans to Loss Reserve	60											
Cash and Investments less Debt $ (Liquid Collateral)	61		($5,130,958)	($15,607,281)	($30,947,553)	($50,478,240)	($68,725,742)	($89,780,384)	($111,069,167)	($131,011,345)	($148,459,698)	($167,674,974)
CDFI Preferred Risk Asset Exposure %	62											
% Risk Asset Exposure for CDFI Preferred	63											
Book Value Loans $	64											
% Risk Assets must shrink for CDFI Preferred Default	65											
Common Equity % Total Assets	66		12.3%	12.4%	11.8%	12.6%	12.3%	12.4%	12.4%	13.1%	12.8%	12.8%
Total Liabilities to Equity	67		2.41	2.28	2.39	2.21	2.36	2.39	2.42	2.27	2.36	2.39

SPV CASH FLOW ON THE SPV PAGE

CASH FLOW		Start with 0									
Beginning Cash	68	0	$256,948	($120,582)	$1,361,214	($1,566,973)	$760,708	$2,223,860	$6,787,688	($1,822,335)	$4,105,477
Net Profit After Tax and Dividends	69	($193,877)	-$316,210	-$401,875	-$668,424	-$834,454	-$980,267	-$1,076,463	-$923,319	-$1,017,561	-$1,112,800
Recoveries	69										
Provision for Losses	70	275,354	$610,572	$985,278	$1,393,143	$1,558,179	$1,947,452	$2,249,903	$2,488,699	$2,593,133	$3,026,220
Non-cash Items	71	0	0	0	0	0	0	0	0	0	0
Total Sources from Ops	72	81,477	294,362	583,403	724,719	723,725	967,186	1,173,440	1,565,380	1,575,572	1,913,420
Accounts Receivable	73	(44,724)	($73,982)	($114,905)	($137,136)	($120,797)	($155,680)	($157,872)	($160,651)	($144,063)	($185,938)
Other Assets	74										
Accounts Payable	75	22,603	$4,048	$5,716	$6,748	$6,251	$8,766	$9,526	$10,523	$10,206	$14,649
Accrued Expenses	76	23,109	$47,659	$77,800	$108,899	$106,189	$120,778	$121,765	$103,600	$126,616	$134,242
Taxes Payable	77	0	$0	$5,000	$2,712	$5,432	$7,853	$9,725	$17,571	$7,442	$8,478
Other Liabilities	78										
Total Uses	79	989	(22,275)	(26,388)	(18,777)	(2,925)	(18,284)	(16,855)	(28,958)	200	(28,569)
Net Operating Sources/(Uses)	80	82,466	272,087	557,015	705,942	720,801	948,902	1,156,584	1,536,423	1,575,773	1,884,850
Gross Loan Originations	81	($8,127,000)	($17,254,000)	($26,881,000)	($37,308,000)	($39,635,000)	($49,262,000)	($56,189,000)	($62,016,000)	($65,643,000)	($76,770,000)
Loan Principal Amortization	82	$454,530	$1,575,733	$3,823,677	$7,792,252	$11,781,367	$16,872,211	$22,708,455	$29,074,504	$34,987,992	$41,875,187
Prepayments	83	$0	$0	$0	$0	$0	$122,540	$571,430	$1,751,870	$2,913,850	$4,213,830
Changes in Loans	84	($7,672,470)	($15,678,267)	($23,057,323)	($29,515,748)	($27,853,633)	($32,267,249)	($32,909,115)	($31,189,626)	($27,741,158)	($30,680,983)
New Short Term Debt	85	$1,000,000	$1,000,000	$3,500,000	$3,500,000	$5,000,000	$4,500,000	$7,500,000	$7,500,000	$11,000,000	$11,000,000
Short Term Debt: Amortization	86	($55,928)	($124,166)	($402,400)	($782,966)	($1,276,569)	($1,748,984)	($2,516,108)	($3,283,073)	($4,297,271)	($5,292,991)
New Long Term Debt	87	$4,688,900	$10,000,000	$15,000,000	$17,000,000	$24,000,000	$28,200,000	$30,000,000	$23,000,000	$36,000,000	$38,500,000
Long Term Debt: Amortization	88	($215,066)	($677,041)	($1,375,532)	($3,114,534)	($5,448,248)	($8,233,222)	($11,031,281)	($14,984,772)	($19,026,564)	($22,624,394)
New CDFI Preferreds Issued	89	$1,510,113	$3,075,764	$4,505,441	$5,740,464	$5,367,252	$6,188,959	$6,258,189	$5,858,471	$5,132,981	$5,645,372
CDFI Preferreds Redeemed	90	0	0	0	0	0	0	0	0	0	0
New Common Stock A Issued	91	$755,057	$1,537,882	$2,252,720	$2,870,232	$2,683,626	$3,094,479	$3,129,095	$2,929,236	$2,566,490	$2,822,686
Total Financing	92	$7,683,075	$14,812,439	$23,480,229	$25,213,196	$30,326,060	$32,001,233	$33,339,894	$21,019,861	$31,375,636	$30,050,672
Cash Flow Before Sweep and Injection	93	$93,071	($593,741)	$979,921	($3,596,611)	$3,193,227	$682,886	$1,587,364	($8,633,341)	$5,210,251	$1,254,540
New Common Stock B Issued	94	$193,877	$316,210	$401,875	$668,424	$834,454	$980,267	$1,076,463	$923,319	$1,017,561	$1,112,800
Cash Flow after Common Stock B Purchased	95	$286,948	($277,530)	$1,381,796	($2,928,187)	$4,027,681	$1,663,153	$2,663,827	($7,710,023)	$6,227,812	$2,367,340
Short Term Investments (Increase)	96	($30,000)	($100,000)	($1,400,000)	$0	($1,700,000)	($1,000,000)	$0	($900,000)	($300,000)	$0
Short Term Investments Decrease		0	0	1,500,000	0	0	800,000	1,900,000	0	0	
Change in Cash	97	$256,948	($377,530)	$1,481,796	($2,928,187)	$2,327,681	$1,463,153	$4,563,827	($8,610,023)	$5,927,812	$2,367,340
Ending Cash	98	$256,948	($120,582)	$1,361,214	($1,566,973)	$760,708	$2,223,860	$6,787,688	($1,822,335)	$4,105,477	$6,872,817
Ending Short Term Investments		$30,000	$130,000	$30,000	$30,000	$1,730,000	$1,930,000	$30,000	$930,000	$1,230,000	$830,000
Reconciliation of Cash Flow and Balance Sheet											
Ending Cash	96	$256,948	($120,582)	$1,361,214	($1,566,973)	$760,708	$2,223,860	$6,787,688	($1,822,335)	$4,105,477	$6,872,817
Free Cash Flow $ (NPAT plus changes in WC)	97	$173,073	$547,239	$1,102,494	$1,595,848	$1,932,743	$2,532,182	$3,115,355	$3,846,702	$4,194,030	$4,841,831
Years to Repay Debt	98	31.30	28.54	29.33	30.67	36.85	37.10	37.84	33.83	36.67	36.22
FCF % to CDFI Preferred Purchases	99	11.5%	17.8%	24.5%	27.8%	36.0%	40.9%	49.8%	65.7%	81.7%	85.8%
CDFI Redemptions to CDFI Purchases	100	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

EXHIBIT 2

SOURCE ASSUMPTIONS ON THE SOURCE PAGE (TWO PAGES)

SOURCE FINANCIAL ASSUMPTIONS

OPERATING STATEMENT		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Number of Loans Originated	283		165	317	530	660	794	939	1082	1223	1354	1510
Cumulative Number of Loans Originated/Serviced	284		165	482	1012	1672	2466	3405	4487	5710	7064	8574
Operating Expense Inflation Rate	285	1.50%	101.50%	103.02%	104.57%	106.14%	107.73%	109.34%	110.98%	112.65%	114.34%	116.05%
Other Revenues % to Investment Portfolio	286	0.05%	$0	$11,326	$32,626	$65,175	$103,081	$145,070	$190,589	$238,041	$284,693	$329,575
Staff Expense												
FTE Hours to Evaluate Data for 1 SPV Portfolio	287	6	360	360	360	360	360	360	360	360	360	360
Number of Evaluations per Year	288		60	60	60	60	60	60	60	60	60	60
FTE Hours to Run 1 CDFI Stress Test	289	60	900	900	900	900	900	900	900	900	900	900
Number of Stress Tests per Year	290		15	15	15	15	15	15	15	15	15	15
FTE Hours to Evaluate Consolidated SPV and CDFI	291	90	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350
Number of Evaluations per Year	292		15	15	15	15	15	15	15	15	15	15
FTE Hours Credit Audit 50 loans	293	200	100	100	200	400	500	600	700	800	900	1,000
	294		0.50	1.00	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50
Annual Hours per FTE / Total Hours Required	295	1,860	2,710	2,710	2,810	3,010	3,110	3,210	3,310	3,410	3,510	3,610
FTE Required	296		1.5	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.9	1.9
Total Compensation per Financial Risk Analyst (w/ Inflation)	297	$120,000	$177,461	$180,123	$189,571	$206,110	$216,152	$226,449	$237,006	$247,828	$258,923	$270,294
Treasurer	298	$170,000	$172,550	$177,765	$185,885	$197,292	$212,539	$232,400	$257,928	$290,554	$332,216	$385,550
Finance and Administration per FTE	299	$75,000	$76,125	$78,426	$82,008	$87,041	$93,767	$102,529	$113,792	$128,185	$146,566	$170,096
# FTE	300	1.00	1.00	1.00	1.00	1.50	1.50	1.50	1.50	1.50	2.00	2.00
Total Finance and Administration	301		$76,125	$78,426	$82,008	$130,561	$140,651	$153,794	$170,687	$192,278	$293,132	$340,192
Total FTE	302		3.5	3.5	3.5	4.1	4.2	4.2	4.3	4.3	4.9	4.9
Increase in FTE %	303			100.00%	101.56%	119.13%	120.68%	122.24%	123.79%	125.35%	141.37%	142.92%
Total Salaries and Benefits with inflation	304		$426,136	$436,314	$457,465	$533,963	$569,342	$612,642	$665,621	$730,660	$884,271	$996,036
Staff-Related Expenses												
Administration	305	$35,000	$35,525	$36,599	$38,271	$40,619	$43,758	$47,847	$53,103	$59,820	$68,397	$79,378
Organizational, Governance	306	$50,000	$50,750	$52,284	$54,672	$58,027	$62,512	$68,353	$75,861	$85,457	$97,711	$113,397
Dues, subscriptions, training	307	$2,500	$2,538	$2,614	$2,734	$2,901	$3,126	$3,418	$3,793	$4,273	$4,886	$5,670
Marketing	308	$8,000	$8,120	$8,365	$8,748	$9,284	$10,002	$10,936	$12,138	$13,673	$15,634	$18,144
Travel	309	$7,500	$7,613	$7,843	$8,201	$8,704	$9,377	$10,253	$11,379	$12,819	$14,657	$17,010
Equipment, utilities, communications, rent	310	$12,000	$12,180	$12,548	$13,121	$13,926	$15,003	$16,405	$18,207	$20,510	$23,451	$27,215
Total Staff Related Expenses	311		$116,725	$120,253	$125,746	$133,462	$143,777	$157,212	$174,481	$196,551	$224,734	$260,814
Adjusted for Staff increases	312		**$116,725**	**$120,253**	**$127,702**	**$158,992**	**$173,516**	**$192,175**	**$215,998**	**$246,377**	**$317,704**	**$372,765**
Trade Expenses as a % to Investment Portfolio		0.33%	$74,751	$215,329	$430,153	$680,332	$957,462	$1,257,887	$1,571,072	$1,878,972	$2,175,196	$2,464,861
Professional Fees	313	$250,000	$253,750	$257,556	$261,420	$265,341	$269,321	$273,361	$277,461	$281,623	$285,847	$290,135
Other Expenses	314	$50,000	$50,750	$51,511	$52,284	$53,068	$53,864	$54,672	$55,492	$56,325	$57,169	$58,027
TOTAL EXPENSES	314		**$922,112**	**$1,080,964**	**$1,329,023**	**$1,691,696**	**$2,023,505**	**$2,390,737**	**$2,785,644**	**$3,193,957**	**$3,720,188**	**$4,181,823**
% Total SPV Preferred Stock Investments	315		4.07%	1.66%	1.02%	0.82%	0.70%	0.63%	0.59%	0.56%	0.56%	0.56%

ASSETS		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Starting Cash followed by / Cash Balances	316	$100,000	$937,601									
Return on Marketable Securities	317	1%										
Marketable Securities $	318	$25,000	$80,000									
Accounts Receivable as a % of Revenues	319	9%										
Accounts Receivable $	320	$0	$122,366									
Other Assets as a % to Total Investment Portfolio	321	0.20%										
Other Assets $	322	$0	$45,303									

This page and the one that follows compose the whole set of assumptions for the set-up and forecasting of the SOURCE fund—except for the financial adjustments that are made in the Control Room that follows.

EXHIBIT 2

LIABILITIES		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Payables and Accruals												
% Taxes Payable to Annual Taxes	323	7.75%										
Annual Taxes	324	31%	$135,630	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxes Payable	325		$10,511									
% Interest Payable to Interest Expense	326	8.60%										
Interest Expense	327											
Interest Payable	328											
% Dividends Payable to Pref & Comm Dividends	329	27.00%	27.00%									
Preferred + Common Dividends $	330		$361,250									
Dividends Payable	331		$97,538									
% Accts Payable to Trade, Professional & Other Expenses	332	8.13%	8.13%									
Trade+Professional+Other Expenses (Lines 7,8,9)	333		$379,251									
Accounts Payable	334		$30,833									
% Accrued Expenses to Staff & Staff Related Expenses	335	8.13%	8.13%									
Staff & Staff Related Expenses (Lines 5,6)	336		$542,861									
Accrued Expenses	337		$44,107									
Other Liabilities % Total Investment Portfolio	338	0.39%										
			$88,342									
Short Term Debt												
Fixed or Floating	338	Floating										
Interest Rate	339	3.00%										
Index	340											
Spread	341											
Increase/(Decrease) in Short Term Borrowing	342		$500,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cumulative STD Outstanding	343	$0	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000
	344											

Long Term Debt		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Long Term Debt for Loan Funding		**100%**	**$2,000,000**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Long Term Debt - Fixed Monthly Payment												
Term (In Months)	345	116										
Loan Type		Fixed Monthly Payment										
Loan Terms	346	Interest Rate										
	347	4.00%										
Annual LTD as a % of Total Debt For Loan Funding	348	20%	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total cumulative LTD Originated	349		$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Long Term Debt - Equal Principal Amortization												
Term (In Months)	350	84										
Loan Type		Equal Principal Amortization										
Loan Terms	351	Interest Rate	P&I Payment Frequency									
	352	4.00%	Monthly									
Annual LTD as a % of Total Debt For Loan Funding	353	20%	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total cumulative LTD Originated	354		$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Long Term Debt - Balloon												
Term (In Months)	355	96										
Loan Type		Balloon										
Loan Terms	356	Interest Rate	P&I Payment Frequency	3rd to Last Year Payments %	2nd to Last Year Payments %	Final Year Payments %						
	357	4.00%	Monthly	15.00%	35.00%	50.00%						
Annual LTD as a % of Total Debt For Loan Funding	358	20%	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total cumulative LTD Originated	359		$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Long Term Debt - Bullet												
Term (In Months)	360	42										
Loan Type		Bullet			Fixed	Floating						
Loan Terms	361	Interest Paid or Accrued	Interest Compound Frequency	Fixed or Floating Rate	Interest Rate	Base Rate	Spread					
	362	Paid	Annually	Floating	4.00%	LIBOR	2.25%					
Annual LTD as a % of Total Debt For Loan Funding	363	20%	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total cumulative LTD Originated	364		$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Long Term Debt - Fully Amortizing with I/O												
Term (In Months)	365	120										
Loan Type		Fully Amortizing with I/O										
Loan Terms	366	Interest Rate	Principal Payment Frequency	Interest Only Period in Months								
	367	4.00%	Quarterly	48								
Annual LTD as a % of Total Debt For Loan Funding	368	20%	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total cumulative LTD Originated	369		$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000

EQUITY		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
SOURCE Preferred Stock												
Annual SOURCE Preferred Stock Issued	370		$3,000,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cumulative SOURCE Preferred Stock Issued	371		$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000
SOURCE Preferred Stock Redemptions	372											
SOURCE Preferred Stock Balance	373		$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000
SOURCE Preferred Stock Dividend Yield	374	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
SOURCE Preferred Stock Dividends	375		$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000	$180,000
Common Stock												
SOURCE Common Stock A Issued	376		$18,000,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cumulative SOURCE Common Stock Issued	377		$18,000,000	$18,000,000	$18,000,000	$18,000,000	$18,000,000	$18,000,000	$18,000,000	$18,000,000	$18,000,000	$18,000,000
SOURCE Common Stock Repurchased	378		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
SOURCE Common Stock Balance	379	$125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000	$18,125,000
Common Stock Dividend Yield	380	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Common Stock Dividends	381		$181,250	$181,250	$181,250	$181,250	$181,250	$181,250	$181,250	$181,250	$181,250	$181,250
SOURCE Profit (Loss)	382		($59,365)	$0	$0	$0	$0	$0	$0	$0	$0	$0
SOURCE Retained Earnings	383	0	($59,365)	($59,365)	($59,365)	($59,365)	($59,365)	($59,365)	($59,365)	($59,365)	($59,365)	($59,365)

EXHIBIT 2

SOURCE CONTROL ROOM ON THE SOURCE PAGE

SOURCE CONTROL ROOM

KEY PERFORMANCE INDICATORS			2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
SPV Preferred Issues #	180											
SPV Preferred Issues $	181											
SPV Preferred Issues Redeemed $	182		$0									
SPV Preferred Issues Outstanding	183		$22,651,696									
Total Assets	184		$23,836,966									
Short Term Debt	185		$500,000									
Long Term Debt	186		$2,000,000									
Total Debt	187		$2,500,000									
SOURCE Preferred Outstanding	188		$3,000,000									
% to Gross SPV Preferred Outstanding FYE	189		13.24%									
SOURCE Common Stock Outstanding	190		$18,125,000									
% to Gross SPV Preferred Outstanding FYE	191		80.02%									
Retained Earnings	192		($59,365)									
% to Gross SPV Preferred Outstanding FYE	193											
Revenue	194		$1,359,627									
Operating Expenses	195		$922,112									
Interest Expense	196		$0									
Operating Profit/(Loss)	197		$437,515									
Net Profit after Interest, Tax, and Dividends	198		($59,365)									
Total Liabilities to Total Equity	199		13.16%									
Total Debt to Total Equity	200		11.87%									
Total Debt to SOURCE Preferred Stock	201		83.33%									
SOURCE Preferred Stock to SPV Preferred Stock	202		13.24%									
Cash and Marketable Securities to Total Debt	203		40.70%									

FINANCING STRATEGY		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
% SPV Preferred Stock to SPV Gross Loans: Maximum	204	20%										
% Actual SOURCE Preferred to SPV Gross Loans	205											
SOURCE Preferred Stock Issued	206		$3,000,000									
SOURCE Preferred Stock Redeemed	207											
SOURCE Common Stock Issued	208		$18,000,000									
SOURCE Common Stock Repurchased	209											
REDEMPTION OF SPV PREFERRED TIE TO NEW LINE IN CF												
Short Term Debt Raised/(Paid-off) to provide SOURCE liquidity	210		$500,000									
Long Term Debt Raised/(Paid-off) to provide SOURCE liquidity	211		$2,000,000									
% SOURCE Preferred Stock to Common Stock	212		16.55%									
$ Unencumbered liquid assets to SOURCE Preferred	213		($1,631,364)									
SPV Preferred Collateral Coverage	214		700.68%									
Cash Flow before (Increase) Decrease in Investments	215											
Short Term Investments (Increase)	216		-105000									
Short Term Investments Decrease	217		50000									
Final Cash Balance	218	$100,000	$937,601									
Short Term Investment Balance	219	$25,000	$80,000									

As with the SPV Control Room, this is where the financing decisions are made. It is also the focal point for determining how much cash is available to be invested in the SPVs—and at what dividend yield.

The chart on the next page shows the kinds of reporting that inform the Control Room about the composition of the portfolio as well as its performance and where allocations should be increased or decreased based on size and risk.

EXHIBIT 2

EXAMPLE OF REPORTING LINE ITEMS IN THE CONTROL ROOM

KEY PORTFOLIO COMPONENTS	
SPV Preferred Stock FYE $ Balance CDFI 1	220
% to Total SPV Preferred Stock Owned by SOURCE	221
SPV Preferred Stock FYE $ Balance CDFI 2	222
% to Total SPV Preferred Stock Owned by SOURCE	223
SPV Preferred Stock FYE $ Balance CDFI 3	224
% to Total SPV Preferred Stock Owned by SOURCE	225
SPV Preferred Stock FYE $ Balance CDFI 4	226
% to Total SPV Preferred Stock Owned by SOURCE	227
SPV Preferred Stock FYE $ Balance CDFI 5	228
% to Total SPV Preferred Stock Owned by SOURCE	229
SPV Preferred Stock FYE $ Balance CDFI 6	230
% to Total SPV Preferred Stock Owned by SOURCE	231
SPV Preferred Stock FYE $ Balance CDFI 7	232
% to Total SPV Preferred Stock Owned by SOURCE	233
SPV Preferred Stock FYE $ Balance CDFI 8	234
% to Total SPV Preferred Stock Owned by SOURCE	235
SPV Preferred Stock FYE $ Balance CDFI 9	236
% to Total SPV Preferred Stock Owned by SOURCE	237
SPV Preferred Stock FYE $ Balance CDFI 10	238
% to Total SPV Preferred Stock Owned by SOURCE	239
SPV Preferred Stock FYE $ Balance CDFI 11	240
% to Total SPV Preferred Stock Owned by SOURCE	241
SPV Preferred Stock FYE $ Balance CDFI 12	242
% to Total SPV Preferred Stock Owned by SOURCE	243
SPV Preferred Stock FYE $ Balance CDFI 13	244
% to Total SPV Preferred Stock Owned by SOURCE	245
SPV Preferred Stock FYE $ Balance CDFI 14	246
% to Total SPV Preferred Stock Owned by SOURCE	247
SPV Preferred Stock FYE $ Balance CDFI 15	248
% to Total SPV Preferred Stock Owned by SOURCE	249
Monthly Fixed Payment Type 1 Gross FYE $ Balance	250
Monthly Fixed Payment Type 2 Gross FYE $ Balance	251
Monthly Fixed Payment Type 3 Gross FYE $ Balance	252
Equal Principal Amortization Gross FYE $ Balance	253
Bullet Loan Type 1 Gross FYE $ Balance	254
Bullet Loan Type 1 Gross FYE $ Balance	255
Balloon Loan Gross FYE $ Balance	256
Full Amort IO Type 1 Gross FYE $ Balance	257
Full Amort IO Type 2 Gross FYE $ Balance	258
Gross Loan Balance $: Home Mortgage	259
% to Total Gross $ Balance	260
Gross Loan Balance $: Multifamily	261
% to Total Gross $ Balance	262
Gross Loan Balance $: Small Business	263
% to Total Gross $ Balance	264
Gross Loan Balance $: Community Facility	265
% to Total Gross $ Balance	266
Gross Loan Balance $: Commercial Real Estate	267
% to Total Gross $ Balance	268
Gross Loan Balance: Existing Building or Business	269
% to Total Gross FYE $ Balance	270
Gross Loan Balance: New Construction/New Business	271
% to Total Gross FYE $ Balance	272
Gross Loan Balance: Rehabilitation/Business Acquisition	273
% to Total Gross FYE $ Balance	274
Gross Loan Balance: Senior Loans	275
% to Total Gross FYE $ Balance	276
Gross Loan Balance: Subordinated Loans	277
% to Total Gross FYE $ Balance	278
Loan Volume: New Customers $	279
% to Total Annual $ Volume	280
Loan Volume: Existing Customers $	281
% to Total Annual $ Volume	282

Exhibit 3. Sample of Securities and Structures Reviewed

To assist in structuring and pricing the equity for the Source LP and the CDFI Equity Fund, offering Memoranda, analyst reports, and/or financial information on the following entities, all of which were issuing preferred or quasi-equity notes at the time of the review:

Dime Community Bank
New York Community Bank
Northern Trust
First Republic
Customers Bank
Signature Bank
B Riley Financial
US Trust

To assist in the structure of the intermediary platform, the following were reviewed:

TruPS Financial Notes Securitization 2020 (TFINS-2020-1)
Variant Interval Fund
Fundrise Interval Fund
Principal Fund
Eco-Fund Tax-Advantaged Fund
UMH Properties, Inc. REIT
AGNC Investment Corporation REIT
Annaly Capital Management, Inc. REIT
Apollos Commercial Real Estate Finance REIT
Ares Capital Corporation BIDCO
Main Street Capital BIDCO

Exhibit 4. Potential SPV and Platform Structures

The CDFI Project initially viewed a C-Corp or Beneficial Corporation as the structure for the intermediary platform and a C-Corp for the CDFI SPV. It was determined that it would be better to start with the SPVs as LLCs. The first chart below outlines the basic structure for that. Additional structures were reviewed for the intermediary platform, including REITs and BIDCOs. Two of the charts below show the best immediate options: the LP and the Interval Fund. It was decided to use the LP structure for Stage One.

CDFI Equity Fund L.P.

Sample Terms for

CDFI SPV STRUCTURE (as LLC)

Legal Form	Delaware limited liability company, structured open-ended vehicle
Purpose	For each participating CDFI, the recipient of debt and equity investment from CDFI Equity Fund, in order to provide true equity/patient capital to the participating CDFIs and help the participating CDFIs bolster their balance sheets and capitalize their community-based lending activity
Investment Strategy	Make loans to small businesses seeking venture capital in underserved communities in the United States ("**Target Borrowers**"), an objective that is within the tax-exempt mission of Community Development Venture Capital Alliance, a 501(c)(3) tax-exempt organization ("**CDVC Alliance**")
Governance	Managed by the LLC Manager named in the LLC's operating agreement (anticipated to be an individual or board of managers named by and overseen by the participating CDFI)
Registration	None, assuming exemption under Investment Company Act
Equity Offering	Private placement to (1) Series A (common equivalent) LLC interests to participating CDFI (2) Series B (preferred equivalent) LP interests to CDFI Equity Fund, with payment priority over Series A, including rights to dividends and redemption on terms TBD
Credit Facility	From CDFI Equity Fund, unsecured and senior in rights to repayment out of distributable proceeds received from Target Borrowers
Reporting Requirements	Annual audited financials and tax-reporting (K-1s); quarterly unaudited reporting; additional reporting as required/agreed in LLC operating agreement
Management Fee and Fund Expenses	TBD whether the LLC Manager will receive a management fee and/or reimbursement of expenses in operating CDFI SPV, including audit, legal, indemnity, insurance, and other expenses
Investor Economics	Series B investors will be entitled to distributions of distributable proceeds (i.e., proceeds from the sale of a loan portfolio by a CDFI SPV) and current income with priority over Series A investors, but junior to lenders under the Credit Facility, in each case on terms TBD

EXHIBIT 4

Investment Restrictions	TBD[4]
Investor Remedies	TBD[5]
Tax Treatment	TBD depending on fund modeling/tax planning and LLC's election to be treated as: (i) Partnership (pass-through) for U.S. tax purposes; investors pay tax on allocable share of profit/loss whether or not receive distributions; or (ii) Corporation for U.S. tax, where the SPV would be the U.S. tax payer on its income and investors pay tax on distributions received from the SPV.

[4] NOTE: Investment restrictions are anticipated to be provided by the CDFI Equity Fund under both the LLC operating agreement and credit facility to provide parameters for the participating CDFIs and CDFI SPVs but otherwise offer the CDFI's and CDFI SPVs flexibility in managing their lending activities.

[5] NOTE: In an LLC JV (which this may be one way to view this vehicle), investor would typically discuss restrictions on transfer and remedies if there are issues (e.g., if LLC Manager is defaulting on performance or investors are in default).

EXHIBIT 4

CDFI Equity Fund L.P.

Sample Terms for
FUND STRUCTURE

Legal Form	Delaware limited partnership, structured as a [closed-ended]/[open-ended] limited partnership[6]
Purpose	Provide prototype for investment in preferred equity of special purpose vehicles ("**CDFI SPVs**") owned and managed by CDFIs in order to provide true equity/patient capital to participating CDFIs and help participating CDFIs bolster their balance sheets and capitalize their community-based lending activity Once business case is proven, program intends to scale either as larger fund in similar form or as interval fund
Investment Strategy	Debt and equity issued by CDFI SPVs, which in turn will make loans to small businesses seeking venture capital in underserved communities in the United States, an objective that is within the tax-exempt mission of Community Development Venture Capital Alliance, a 501(c)(3) tax-exempt organization ("**CDVC Alliance**")
Governance	Managed by the Fund Manager (anticipated to be CDFI Equity Fund Manager (DE LLC), a wholly owned subsidiary of CDVC Alliance)
Registration	None, assuming exemption under 3(c)(1) or 3(c)(7) of Investment Company Act[7]
Equity Offering	Private placement to Accredited Investors/Qualified Purchasers of (1) Series A (common equivalent) LP interests to supporting banks and foundations (2) Series B (preferred equivalent) LP interests to conventional equity investors, with payment priority over Series A, including rights to dividends and redemption on terms TBD
Credit Facility	Short-term debt, unsecured and senior in rights to repayment out of distributable proceeds received by Fund from CDFI SPV
Reporting Requirements	Annual audited financials and tax-reporting (K-1s); quarterly unaudited reporting; additional reporting as required/agreed in partnership agreement
Management Fee and Fund Expenses	The Fund will pay (i) the Fund Manager an annual management fees of [__%] of the aggregate [commitments]/[capital under management][8], and (ii) customary (and to be enumerated) Fund operating expenses, including audit, legal, indemnity, insurance, and other expenses
Investor Economics	Series B investors will be entitled to distributions of distributable proceeds (i.e., proceeds from the sale of a loan portfolio by the Fund) and current

[6] NOTE: To determine whether to structure as fixed term (e.g., manage towards exit at 25 years) or make open-ended with certain liquidity events based on proceeds received from CDFI SPV
[7] NOTE: However, manager of Fund may be required to register as a registered investment adviser under the Advisers Act or state law, depending on assets under management
[8] NOTE: To confirm calculation of Management Fee and whether it will step down after a stated investment period.

	income with priority over Series A investors, but junior to lenders under the Credit Facility, in each case on terms TBD
Investment Restrictions	TBD[9]
Exclusivity	The Fund Manager will not close or manage a similar fund without investor consent prior to (i) [75%] of aggregated capital commitments being invested, committed or reserved, or (ii) end of investment period, if any, and will allocate all opportunities suitable for the Fund to the Fund.
Investor Remedies	TBD[10]
Tax Treatment	Partnership (pass-through) for U.S. tax purposes; investors pay tax on allocable share of profit/loss whether or not receive distributions

[9] NOTE: Investment restrictions typically included to avoid investment drift, minimize risk, and provide desired diversification. Sample investment restrictions might include the following:

Unless approved by a majority in interest of the Limited Partners, the Fund will invest:

- *No more than [15%] of aggregate commitments in equity/loans to a single CDFI*
- *No more than [__%] in equity/loans to CDFIs outside specified target regions*
- *No investments in pooled vehicles, in derivatives, digital assets or in assets requiring Fund to assume unlimited liability.*

The Fund may originate, extend and/or guarantee loans, with or without security.

[10] NOTE: In a closed-ended fund, Fund LPs typically require for all investments to cease if a key person event is triggered, and may also require one or more no-fault or for-cause rights to remove the Fund Manager or terminate the Fund. Such remedies are less typical in an open-ended fund since Fund LPs have more liquidity.

EXHIBIT 4

CDFI Equity Fund

INTERVAL FUND OVERVIEW

Corporate Form	Corporation, structured as closed-end management investment company, operated as an "interval fund" (the "**Fund**").
Purpose	investment in preferred equity of CDFI SPV in order to provide true equity/patient capital to participating CDFIs and help those participating CDFIs bolster their balance sheets and capitalize their community-based lending activity
Governance	As a corporation, the Fund would have a Board of Directors. The Board of Directors approves an investment advisory agreement and sub-advisor agreements with an investment advisor, which would be paid a management fee. Additional service providers include an administrator, distribution/underwriter, transfer agent, custodian, legal counsel, and independent auditor/accountant.
Registration	Registered under the Investment Company Act of 1940.
Offering	If registered under the Securities Act of 1933, as amended, then the shares may be offered publicly. Otherwise, shares must be offered in private placements to accredited investors.
Management Fee and Fund Expenses	The Fund will pay (i) the Fund Manager an annual management fees of [__%] of the aggregate [commitments]/[capital under management][11], and (ii) customary (and to be enumerated) Fund operating expenses, including audit, legal, indemnity and other expenses
Investor Economics	The Fund provides periodic opportunities (monthly, quarterly, semi-annually, or annually) for investors holding shares to repurchase between 5% and 25% of the Fund's outstanding shares at the net asset value (the "**NAV**"). If repurchase requests are in excess of the stated amount, then the Fund would generally repurchase shares of on a pro rata basis. The Fund may deduct a repurchase fee but is not required to do so.
Investment Restrictions	TBD
Reporting Requirements	Prospectus, annual, and semi-annual report. The Fund must also notify shareholders of the repurchase dates in advance (at least 21 days), as well as the repurchase deadline. Reports to shareholders include the number of repurchase offers, the repurchase offer amount, the number of shares, and oversubscription information. The repurchase notice is also filed with the SEC on Form N-23C3A.
Tax Treatment	Generally treated as a regulated investment company, with 1099 tax treatment.

[11] NOTE: To confirm calculation of Management Fee – Interval Fund Tracker show a range of 1.25-1.88% in the market, varying by investment strategy and also whether calculated based on NAV or Total Assets.

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