



Community and Economic Development in North Carolina and Beyond Blog: The CDFI Bond Guarantee Program

By CED Program Interns & Students

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It is no secret that the struggle to preserve affordable housing and increase economic growth is more challenging than ever. Subsidies are growing smaller and building costs are increasing, making affordable housing more difficult to develop. However, a federal program known as the Community Development Financial Institution (CDFI) Bond Guarantee Program (BGP) is making it possible for CDFIs across the nation to invest in the distressed communities of the United States.

The CDFI Bond Guarantee Program was created by the U.S. Treasury's CDFI Fund through the Small Business Jobs Act of 2010. The program was designed to provide long-term, low-cost capital for community revitalization and economic growth. Through this program, federally certified Qualified Issuers (CDFIs or approved designees) are eligible to apply to the CDFI Fund for the authorization to issue bonds worth a minimum of \$100 million total. These bonds are guaranteed 100% by the U.S. Treasury, up to \$1 billion per year. The proceeds from these bonds can be used to extend credit for community development purposes or to refinance existing obligations.

The way the program works is by Qualified Issuers selling their government-backed bonds to the Federal Financing Bank (FFB), which is a government corporation that provides financing to help federal agencies manage their borrowing and lending programs. Each bond provides capital with a maximum maturity rate of 30 years. Currently, the CDFI Bond Guarantee Program is the only source of long-term, fixed-rate capital available for community development. Additionally, as a federal credit subsidy program that does not offer grants or direct loans, the bonds are essentially debt that must be repaid. This allows the program function at no cost to taxpayers.

Since its inception, approximately fifteen Qualified Issuers have leveraged the CDFI Bond Guarantee Program to access capital. The Opportunity Finance Network (OFN) is the largest national network of CDFIs. Through the CDFI Bond Guarantee Program, in 2013 OFN issued the first CDFI Bond composed of a \$100 million bond on behalf of Clearinghouse CDFI to provide community development financing in California and Nevada. The Community Development Trust (CDT) is another example as a CDFI that has affordable housing projects in over 40 states, including North Carolina. CDT used capital from the CDFI Bond Guarantee Program for 14 of their affordable housing deals, providing the capital to local and statewide multifamily housing developers for the repair and upkeep of affordable housing units.



Though the program has been instrumental in terms of providing federal bonds to CDFIs, it has also been a stepping stone for CDFIs in accessing private capital. In 2017, two CDFIs, the Local Initiatives Support Corporation (LISC) and Reinvestment Fund made bond offerings in the private market by getting Standard and Poor's (S&P) rated. S&P is one of the three major credit rating agencies in America used to determine the creditworthiness. LISC raised \$100 million in the very first public offering of a CDFI bond with Reinvestment Fund raising \$50 million in its bond offering. Both CDFIs received more bids for bonds than they were selling. Currently, five CDFIs have gotten their S&P rating, including Capital Impact Partners, Housing Trust Silicon Valley, and Clearinghouse CDFI. Each of these CDFIs have high ratings that indicate them as low-risk investments and have enabled these organizations to access private capital through the bond market.

As other funding sources grow scarcer, the CDFI Bond Guarantee Program has opened the door for CDFIs to access other capital sources for community development. While S&P ratings can be expensive and time-consuming to obtain, the CDFIs that have already received their ratings showcase the opportunity that bond markets can provide as a new source of capital to be deployed in the communities that need it most.

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