



BILLING CODE 4810-70-P

**DEPARTMENT OF THE TREASURY**

**Community Development Financial Institutions Fund; Request for Information**

**ANNOUNCEMENT TYPE:** Notice and Request for Information,

**SUMMARY:** The Community Development Financial Institutions Fund (CDFI Fund), Department of the Treasury, requests comments from the public to gain a better understanding of how Community Development Financial Institutions (CDFIs) treat equity investments in their organizations to help inform policy decisions regarding the CDFI Fund's management and oversight of its investment portfolio.

**DATES:** Written comments must be received on or before [Insert date 30 days from publication in the FEDERAL REGISTER] to be assured of consideration.

**ADDRESSES:** Submit your comments via email to Tanya McInnis, Certification, Compliance Monitoring and Evaluation (CCME) Program Manager, CDFI Fund, at [cdfihelp@cdfi.treas.gov](mailto:cdfihelp@cdfi.treas.gov).

**FOR FURTHER INFORMATION, CONTACT:** Tanya McInnis, CCME Program Manager, CDFI Fund, 1500 Pennsylvania Avenue, NW, Washington, DC 20220 or e-mail to [cdfihelp@cdfi.treas.gov](mailto:cdfihelp@cdfi.treas.gov).

**SUPPLEMENTARY INFORMATION:**

Through the Community Development Financial Institutions Program (CDFI Program) and Native American CDFI Assistance Program (NACA Program), the CDFI Fund provides Financial Assistance (FA) awards in variety of forms, including equity investments. The CDFI Fund is working to provide more context and clarity regarding policies and procedures related to equity investments it provides in two specific areas: compliance remedies and cure periods for

CDFIs noncompliant with the CDFI Fund's existing control restrictions and the adoption of an exit strategy for new equity investment awards.

*Control Restrictions:* By statute, the CDFI Fund may not own more than fifty percent (50%) of a CDFI's equity, nor may it otherwise control a CDFI. Periodically, CDFIs have taken actions with respect to equity investments in their organization that have resulted in the CDFI Fund owning more than fifty percent (50%) of a CDFI's equity, or otherwise controlling a CDFI. The CDFI Fund is interested in learning from the industry their perspective on methods CDFIs may be afforded to cure noncompliance with this requirement. Options under consideration include requiring a Recipient to repurchase or redeem the CDFI Fund's equity investment to decrease CDFI Fund ownership to fifty percent (50%) or below; permitting a Recipient to issue more shares to dilute the CDFI Fund's equity investment percentage to the fifty percent (50%) threshold or below; or a combination thereof.

*Equity Investment Exit Strategy:* The CDFI Fund has an internal investment policy with language outlining a practice to conduct a yearly review of the existing investments in its portfolio and to provide recommendations to Senior Management of possible next steps, if any. The current policy does not provide specific plans of action or indicia for exiting equity investments.

## **I. General Questions on CDFI Equity and Related Policies**

1. How does your CDFI use equity investments from the CDFI Fund and other organizations as part of your lending and or business model?
2. What are the risk/factors your organization takes into account when developing an equity strategy (e.g. increasing or decreasing the amount of equity)? The CDFI Fund is trying to understand the impact/risks/benefits of mandating a CDFI repurchase or redeem CDFI Fund equity investments at a specific future date.

3. How does your organization determine the value of equity shares on its balance sheet?
4. What is your policy for redeeming or repurchasing equity from shareholders?
5. What is your preferred schedule for redeeming or repurchasing equity from shareholders? Is your schedule to return equity to shareholders based on percentages of shares or specific deadlines?

## **II. CDFI Fund Control Restriction**

1. The Riegle Act requires that the CDFI Fund may not own more than fifty percent (50%) equity in a CDFI.
  - a. How frequently does your organization assess the percent of equity controlled by all shareholders, including the CDFI Fund?
  - b. Are there specific policies and procedures CDFIs should have in place for ensuring that the CDFI Fund does not own more than fifty percent (50%) of the organization's equity? If so, what are they?
2. A possible solution for reducing the percentage of CDFI Fund ownership to below fifty percent (50%) would be for an organization to issue more equity. What other ways can CDFIs reduce the percentage of CDFI Fund ownership?
3. What factors should the CDFI Fund consider if it were to require CDFIs to repurchase or redeem shares versus increasing the number of shares?
4. Are there any other factors the CDFI Fund should consider when evaluating compliance with the CDFI Fund Control restriction?

## **III. CDFI Fund Investment Exit Strategy**

1. In general, what impact does repurchasing or redeeming CDFI Fund equity shares have on the mission and business model of a CDFI?

2. What are the primary considerations the CDFI Fund should consider when developing an equity strategy including an exit strategy?
3. What is a typical or reasonable exit strategy for equity investments in CDFIs? Is there a minimum amount of time the CDFI Fund should hold an equity investment in a CDFI?
4. Are there any other factors the CDFI Fund should consider when developing an Investment Exit Strategy?

Authority: 12 U.S.C. 4701 et seq.; 12 C.F.R. 1805.

**Jodie L. Harris,**

Director, Community Development Financial Institutions Fund.

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