
Pennsylvania Community Development Bank

Program Guidelines

March 2009

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Commonwealth of Pennsylvania
Tom Wolf, Governor

Department of Community & Economic Development



dced.pa.gov

Table of Contents

Section I	Statement of Purpose	1
Section II	Definitions	1
Section III	Capacity Building Grants	2
Section IV	Loan Programs	7
Appendices		
	Appendix A - Performance Standards and Measures for Capacity Building Grants	16
	Appendix B - Federal Certification Requirements for Community Development Financial Institutions	17
	Appendix C - PCD Bank Accreditation Standards for Loan Applicants	20
Attachments		
	Pennsylvania Community Development Bank Application for State Accreditation DCED-PCDB-01 (2-09)	
	Business Opportunities Fund Guidelines	

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Section I – Statement of Purpose

The Pennsylvania Economic Development Financing Authority (PEDFA), through an Operational Committee of the Board, administers the Pennsylvania Community Development Bank (PCD Bank). Authorized by PEDFA, the PCD Bank's purpose is to assist and expand Community Development Financial Institutions (CDFIs).

CDFIs both make loans /investments and perform other community development functions in distressed communities and for disadvantaged borrowers. As lending institutions consolidated and removed lending decisions from local bank managers, CDFIs emerged to serve the financing needs of businesses and individuals who wanted to start or grow a small business or wanted to purchase a home without using subprime lending. Since the 1990s, CDFIs have demonstrated an ability to lend prudently and productively in unconventional markets often overlooked by conventional financial institutions. The CDFIs industry has created businesses, jobs, home ownership, greater wealth, and a better quality of life for low-income and low-wealth Pennsylvanians.

PCD Bank offers both a Capacity Building Grants Program and a Loan Program to assist and grow CDFIs in Pennsylvania. The guidelines contained in this document, including eligibility and program restrictions, cover both programs.

The Operational Committee of PEDFA awards State Accreditation to CDFIs, approves PCD Bank grants and loans, monitors operations, and reports program performance to the PEDFA Board and participating financial partners. The PCD Bank and its Operational Committee fulfill all of the Bank's administrative and programmatic responsibilities.

Section II – Definitions

The following words and phrases, when used in these guidelines, are defined below:

Accreditation or Accredited – Credentials awarded by the PCD Bank to federally-certified CDFIs based upon criteria of management, financial and lending standards established by PEDFA. Accredited CDFIs are eligible to participate in the loan program.

Community Development Financial Institution (CDFI) – A community development financial institution certified in accordance with the federal Community Development Banking and Financial Institutions Act of 1994 (Public Law 103-325, 108 State 2163).

Department – The Department of Community and Economic Development.

Enterprise Creation – Projects that assist new small business start-ups, small business expansions, job creation and retention, and community facilities having a positive impact on economic revitalization.

Grant Program – Capacity building grant program of the PCD Bank established by the PEDFA and governed by the guidelines contained in this document. Includes Development Services and Expansion Grants.

Loan Program – Loan Program of the PCD Bank for Accredited CDFIs.

PCD Bank – The Pennsylvania Community Development Bank.

Pennsylvania Community Development Bank (PCD Bank) – Program operated by PEDFA under the authority of the Economic Development Financing Act and State Appropriations Acts.

Pennsylvania Economic Development Financing Authority (PEDFA) – An Authority established by the Economic Development Financing Law, or Act 74 of 1993.

Expansion Grants – Grants to assist accredited CDFIs to expand geographic coverage and new products and services.

Development Services Grants – Grants for nonprofit or for-profit CDFIs to provide technical assistance, training, or other support to small businesses and potential borrowers of a CDFI.

Section III – Capacity Building Grants Program

A. Statement of Purpose

The Capacity Building Grants are provided to nonprofit or for-profit organizations that are federally certified as CDFIs. (Due to appropriation restrictions, the PCD Bank cannot assist entities that have not received or are still securing federal certification as a CDFI.) These grants should enhance the organizational capacity of CDFIs, allowing them to expand their operations or offer improved services resulting in increased lending activities.

The PCD Bank offers two types of Capacity Building Grants, each with unique eligibility requirements, eligible uses of funds, and expected performance standards.

1. Expansion Grants

These grants fund the expanded operation and programs of state Accredited CDFIs. The grants may be used to support program development, organizational development, capacity building and/or expansion efforts to reach new markets, and/or to provide new financial products or services by state Accredited CDFIs.

2. Development Services Grants

These grants build the capacity of CDFI business borrowers and increase outreach/marketing efforts to business lending markets for CDFIs. These grants may be used to assist in the operational costs of providing technical assistance and capacity building services to small businesses and other potential borrowers of CDFIs or community lending programs. CDFIs may also use these funds to subcontract or partner with non-CDFI firms to provide this technical assistance.

B. Eligible Applicants

Eligibility for Capacity Building Grants is defined for each type of grant below.

1. Expansion Grants

Federally certified CDFIs, that are nonprofit or for-profit organizations and meet the PCD Bank accreditation criteria are eligible for this grant category (See Accreditation Criteria in Appendix B).

2. **Development Services Grants**

Nonprofit or for-profit federally-certified CDFIs that provide technical assistance, training or other support to small businesses consistent with the CDFI's business or development plan are eligible for this grant category. Eligible CDFIs for these grants do not have to be state Accredited CDFIs.

C. Eligible Uses and Matching Requirements

1. **Expansion Grants**

Accredited CDFIs are eligible for grants that help to expand operations and build their capacity to meet the capital needs of their targeted market. These funds can be used for any organizational or borrower needs.

Expansion Grants are flexible funds that can be used for, but are not limited to, the following purposes and activities:

- Organizational development
- Capacity building activities
- Expanding lending product and service offerings
- Outreach and services to new market(s) or borrower types
- Capitalizing a loan fund
- Administrative/operating costs of the CDFI
- Any activity that demonstrate expansion of a CDFI

Expansion grant proposals must clearly describe the market need and how the grant funding will permit the Accredited CDFI to address that need. The funding should be clearly linked to the CDFI's business plan; in particular its market analysis, as well as other community development strategies for the service area.

Expansion grants are generally awarded for a three year period.

Expansion grants to an individual CDFI may not exceed \$500,000.

Priority in the grant selection process is given to:

- a. Proposals that build demand for and increase use of the PCD Bank Loan Programs.
- b. Proposals that leverage significant amounts of new public and private sector resources.

2. **Development Services Grants**

Nonprofit or for-profit federally-certified CDFIs are eligible to apply for grants that provide technical assistance, training, or other support to small businesses. These funds can be used for organizational or client needs. Applicants must demonstrate how a Development Services Grant will increase the CDFI's lending capacity.

Development Service Grants are funds targeted to assist borrowers and potential borrowers of a federally certified CDFI. These flexible funds can be used for, but are not limited to, the following purposes and activities:

- Technical assistance to borrowers/potential borrowers
- Training for borrowers/potential borrowers
- Services to expand the number of clients/borrowers served

- Other assistance to small businesses to improve operational or fiscal performance
- Organizational development or capacity building activities supporting development services
- Administrative/operating costs of the CDFI to provide the development services

Development Services Grants **cannot** be used for loans or lending capital.

Applicants must demonstrate how a Development Services Grant will increase the CDFI's lending capacity or performance.

Development Services Grants are awarded on an annual basis. Renewals are contingent upon the grantee's performance and future funding appropriated by the General Assembly.

Priority in the grant selection process is given to applicants that:

- Ensure development of CDFIs in all geographic regions of the Commonwealth of Pennsylvania.
- Build demand for and increase use of the PCD Bank Loan Programs.
- Demonstrate a high performance level of business startups for low-income individuals.
- Demonstrate use of other lending resources by borrowers within a CDFI's target market.

3. **Matching Funds for Capacity Building Grants**

Organizations eligible for Capacity Building Grants must have received or have commitments of matching funds that at least equal the Capacity Building Grant amount. The match may include public or private sector funds. Match funds may not include state funds or federal funds awarded competitively by the Department directly to the CDFI.

Funds eligible as a match may be received up to 12 months prior to the submission of an application. An organization must receive all matching funds for each contract year before the final payment of a PCD Bank Capacity Building Grant is made for the year. Evidence of matching funds must be submitted along with the final request for payment.

Organizations that leverage greater amounts of private sector match and have a greater diversity of funding sources receive preference in the grant selection process.

D. Limitations

Capacity Building grants are subject to the following limitations:

1. The status of funds that have been deposited into a revolving loan fund must be periodically reported to the Department for as long as the revolving loan fund is in effect. Semi-annual reports must be submitted to the Department for the periods ending June 30 and December 31 of each calendar year. The Department will provide a standardized format to the Grantee.
2. A financial audit of the grant must be performed and submitted to the Department when the contract activities are completed or when the contract expires, whichever comes first. This audit must be performed by an independent Certified Public Accountant according to Generally Accepted Accounting Principles. The cost of an audit is an allowable expense under the grant.

E. Additional Requirements

1. Keystone Principles for Growth, Investment and Resource Conservation

The Department will adhere to the Commonwealth's Keystone Principles for Growth, Investment and Resource Conservation when selecting projects and awarding contracts. Project selection will support either redevelopment and/or concentrated development. Greater consideration will be given to projects that make efficient use of infrastructure, increase job opportunities, and/or foster sustainable businesses. Every attempt will be made to make funding selections in a fair manner among geographic areas.

2. Immigrant Communities

In an effort to welcome and to integrate immigrant communities with the revitalization efforts of the Commonwealth and its municipalities, the Department encourages local governments and community-based organizations to actively engage these communities. The Department will give special consideration to applications that either include activities or describe how their municipality or organization currently takes proactive steps to integrate immigrant communities in their revitalization efforts. Activities that promote the integration of immigrant communities include, but are not limited to, projects that:

- Support community leadership training and develop the capacity of community-based organizations for project management
- Encourage civic participation in local affairs and planning
- Support English language proficiency
- Support entrepreneurial assistance

Definition of Immigrant: For the purposes of this section, Immigrant shall also include US citizens whose native language is not English.

F. Non-Discrimination

No person shall on the grounds of race, religion, color, national origin, sex, age, sexual preference, or disability, be excluded from participation in, be denied benefits of, or be subjected to discrimination under any activity or program funded in whole or in part with these grant funds.

G. Conflict of Interest

1. No official, employee, volunteer, or board member of any contractor or subcontractor may have or acquire, during the effective period of a contract, interest either direct or indirect that would conflict in any manner with the performance of this program, funded in whole or in part with these grant funds.
2. Furthermore, no official, employee, volunteer, or board member of any contractor or subcontractor shall use his/her position for a purpose, or create the appearance of a purpose, of private gain for themselves or for others with whom they have family, business, or other personal ties.

Questions as to the applicability of these provisions in specific instances should be directed to the Department.

H. Addendum to Single Application for Assistance

Applications must be submitted online through the electronic Single Application for Assistance by utilizing the www.newPA.com website. All supporting documentation that cannot be attached as an addenda to the application must be submitted with the Web ID number to:

PA Department of Community & Economic Development
Customer Service Center
Commonwealth Keystone Building, 4th Floor
400 North Street
Harrisburg, PA 17120-0225.

In addition to the narrative information required on the electronic Single Application, the following information must be provided:

1. **Specific Problems to be Addressed or Improvements to be Financed**

Eligible CDFIs applying for Capacity Building grants must include documentation describing the source and amount of matching funds. The documentation must clearly indicate the sources, nature of the match funds (grant, in-kind, etc.), and status of the commitment (applied for, contingent commitment, received, etc.).

2. **Project Description**

a. **Expansion Grants**

State accredited or federally certified CDFIs must clearly describe how the proposed Expansion Grant will be utilized. The proposal must include the following elements:

- Description of the new product, service, or other program expansion to be funded.
- Market analysis demonstrating the need for the product or service, including a copy of that analysis from a business or development plan of the CDFI. The analysis must have been completed within the previous six months prior to submission of the application.
- Explanation of the anticipated increased demand for and/or use, if any, of the PCD Bank loan program.

If operating and administrative costs are requested, the proposal must describe a plan describing how the expansion or initiative will be sustained when the grant contract expires.

b. **Development Services Grants**

Eligible CDFIs must include the following information in their proposal:

- Describe the technical assistance, service, or other support to be provided to businesses that may receive assistance from the CDFI.
- Describe how the proposal is consistent with the CDFI's business or development plan.
- Explain the anticipated increased demand for and/or use of the PCD Bank loan program.
- Demonstrate relevant experience of the organization and/or staff that is providing the technical assistance to businesses and potential borrowers, as well as a brief history of the organization as it relates to providing technical assistance to small businesses among low-income populations and distressed communities.

- Provide statistical data demonstrating the organization’s performance regarding assistance to low-income individuals, other target groups or other entities starting a business located in disadvantaged communities.

3. **Expected Outcomes**

Describe objective outcomes to be accomplished during the term of the grant award, for example: hire staff; conduct market analysis; obtain training on management systems; increase number of borrowers; expand clients receiving technical assistance; etc. These outcomes must be clearly outlined with timeframes for completion in the Project Schedule and Key Milestone and Dates sections of the Single Application. For Development Services Grants, the objective outcomes must include fulfilling the Performance Standards (please see Appendix A), including quantitative goals for lending performance and other activity results, where appropriate. Expansion Grant applicants must include quantifiable measures of success for their proposed expansion.

4. **Supplemental Materials and Requirements**

A copy of the electronic Single Application for Assistance and attachments must be submitted to the appropriate DCED Regional Office. The DCED Regional Offices are listed on the last page of these Guidelines.

Applicants must submit a budget justification that fully explains how the requested funds will be spent.

The following items must be included as an attachment to the application:

- a. **Attachment 1 – Project Description Summary.** A brief explanation of what is to be accomplished by the applicant. The description must include project objectives, the number of unduplicated borrowers and/or individuals to be served, specific problems that will be addressed and the expected outcome of the project.
- b. **Attachment 2 – Job Descriptions.** A brief description for each position funded in whole or in part with these grant funds. The description must include job title, supervisor, salary range, and specific duties and responsibilities.

Section IV – Loan Programs

To be eligible for a loan, a CDFI must have received both Federal Certification and PCD Bank Accreditation; must demonstrate the need for capital; and must complete a PCD Bank Loan Application (See Appendix B for Federal Certification Requirements, and Appendix C for PCD Bank Accreditation Standards and Application).

A. Business Opportunities Fund

The Business Opportunities Fund provides loans and technical assistance to minority business enterprises, women-owned business enterprises and small businesses. (See Appendix D for Business Opportunities Fund Guidelines).

B. Direct Loan Program

The Direct Loan Program allows for direct loans from PCD Bank funds to borrowers for terms up to 10 years. Unlike regular PCD Bank Loans, Direct Loan funds are disbursed in a single advance. Other requirements and terms may also be different from those for regular PCD Bank loan facilities.

C. Participating Bank Loan Program

Participating Bank loans will be made to State-Accredited CDFI's to fund a group of loan transactions that the CDFI has made or is planning to make to local borrowers. PCD Bank will analyze and underwrite the Accredited CDFI's according to PCD Bank Underwriting Guidelines. Following approval by the Operational Committee, a CDFI will be required to enter into a Credit Facility with PCD Bank, which will describe terms, conditions, interest rates, repayment requirements, performance covenants, collateral requirements and reporting requirements during the term of the Credit Facility. Once the Credit Facility is in place, the CDFI may request advances to fund a specified group of loans.

In addition to the Single Application for Assistance, PCD Bank-Accredited CDFIs applying for loans must address the following information as an addendum to their application:

1. **Eligible Uses of Funds:**

Proceeds of the CDFI loans may be used for the following enterprise development efforts: new business start-ups, retail operations, nonprofit community facilities, and mixed-use projects. Proceeds may also be used to fund loans previously made by the CDFI consistent with these provisions and with the CDFI's business plan.

2. **Loan Parameters:**

Advances under the Credit Facility will amortize separately and will be structured to mirror the term of loans made by the CDFI:

- a. The Credit Facility will initially be approved for advances of three, five, and seven year terms. Based on market needs, PCD Bank will address the potential for longer-term advances to support specialized projects.
- b. The CDFI's loans will be grouped by similar length of time, and when possible, by similar use of proceeds.
- c. Generally, three year loans made by the CDFI will be for items including but not limited to; early stage capital; startup costs; organizational costs; initial inventory supplies; initial property expenses; low-cost equipment (phones, fax, copiers) and basic computer equipment.
- d. Generally, five and seven year loans made by the CDFI will be for more expensive items including, but not limited to; expanded computer systems, costs to support business expansion and large scale equipment purchases.
- e. The PCD Bank Loan Underwriting Criteria, (see below) further detail acceptable loan uses.
- f. PCD Bank will charge a fixed rate of interest on the loans. The interest rate will be a blended rate, based upon the rates allocated among the senior and junior capital. The interest rates on the individual community loans will be set by the CDFI at rates that will enable the CDFI to pay its administrative costs, set aside a reserve for loan losses and repay its PCD Bank Loans and other costs of capital.
- g. Collateral requirements and specific guarantee or recourse issues will be established on a case-by-case basis, and will be outlined in Credit Facility documents.

3. **Loan Underwriting Criteria:**

PCD Bank will assess the following:

- Organizational Capacity
- Portfolio Performance
- Historical Financial Performance
- Projected Operations

The PCD Bank assessment will take into consideration alternative approaches to community development finance and investment and will not require a standard format for a Comprehensive Business Plan. PCD Bank will use the assessment process to measure a CDFI's capability to manage its operations and its ability to repay the requested loan. As with State Accreditation assessment, the review may be performed by PCD Bank Staff and/or a third party.

Loan Applicants will submit the information in the format that presents the most complete information, including its current Five Year Comprehensive Business Plan with supporting information to include:

- Depth, breadth and stability of management experience in community and/or economic development lending.
- Management's capacity to maintain successful operations; market analysis including methodology of determining client needs and statistical data that supports the financial projections.
- Organization's response to market needs, including specific information on how the CDFI supports a traditionally under-served market.
- Marketing plans and outreach to loan customers that supports financial projections.
- Product offerings, including loan terms and interest rates; policies for underwriting; loan administration; risk management; portfolio management; budget requirements; funding/capitalization strategies; and financial projections for the period of the plan.

Loan Applicants must provide all relevant data so that PCD Bank can make an informed decision.

D. Organizational Capacity

1. **Board of Directors:** Loan applicants must have an active Board of Directors. PCD Bank will review the membership of the Board, as well as its roles and responsibilities to ensure that there is sufficient support for the mission, and access to resources for the planning and operational needs of the organization. PCD Bank will measure the strength of the Board and its impact on the operations of the CDFI.
2. Membership must be diverse in experience and capability; such membership might include:
 - a. Representatives with significant lending experience, such as a commercial banker;
 - b. Representatives from the community or population served by the CDFI;
 - c. Representatives from a business profession, such as an attorney, accountant or investment advisor;
 - d. Representatives with experience in providing social services to the population served by the CDFI;

- e. Representatives with access to networking and resources needed by the CDFI;
 - f. Representatives experienced in strategic planning, program and product development.
3. The CDFI must illustrate how the Board carries out its oversight responsibilities and how it interfaces with staff, clients, investors and other key stakeholders in the organization. (If the Board and Loan Committee are separate entities, similar information will be required regarding the Loan Committee.)

E. Key Management and Staff

The CDFI must describe its competence in managing the organization. Loan applicants must fully describe the organizational structure, roles and responsibilities and personal capabilities of key management and staff positions. PCD Bank will measure:

1. Depth and breadth of experience in managing direct lending operations- underwriting and screening loans, risk management, portfolio management, managing client relationships.
2. Background in the community and/or economic development field- connection to population being served, reputation in the community, ability to assess and meet community needs.
3. Qualifications and experience in managing the financial aspects of a direct lending program- portfolio management, asset/liability management, accounting and financial management, fund raising.
4. Capabilities in planning, product development, market research and marketing strategies, including potential competition.
5. Experience with investor relations and management.
6. Ability to provide access to technical assistance and business development services for loan clients.
7. Allocation of human resources to properly manage lending operations and support client needs.

F. Policies and Procedures

The operating standards that a lending institution sets forth are critical to the evaluation of Organizational Capacity. Each PCD Bank loan applicant must present a complete set of written lending policies and procedures that depict a thorough outline of how the organization's lending operations are to be managed. Policies must be flexible enough to benefit the CDFI's constituents, as well as contain certain safety and soundness standards to ensure proper portfolio management. PCD Bank will review content, how the CDFI adheres to its policies, the audit procedures that are in place to ensure compliance with policies, and any periodic update or review processes for the following:

1. **Underwriting Policies**
 - a. How applicant information is obtained; borrower preparedness; use of outside technical assistance providers to package loan requests
 - b. Type of financial information required
 - c. Extent to which the analysis evaluates business plans and actual operations
 - d. Extent to which the CDFI reviews financial operations of the applicant: historical, current, projected
 - e. Techniques for measuring character of the borrower

- f. Extent to which the underwriting addresses the use of loan proceeds and impact on the business/project
- g. Process for evaluating credit-worthiness of borrower
- h. Process for evaluating cash flow information
- i. Collateral valuation methods
- j. Minimum and maximum loan/collateral value standards
- k. Minimum and maximum loan/project cost standards
- l. Standard financial ratios employed in analysis: e.g., balance sheet and income statement ratio analysis
- m. Consistency in documenting credit analyses (i.e., loan applications, written memorandum or other format)

2. **Loan Approval Policies**

- a. authorized lending limits for staff/loan committee
- b. maximum loan amounts; maximum dollars lent to one borrower
- c. policies regarding loans made to delinquent customers
- d. CDFI's compliance with lending policies
- e. procedures for policy exceptions
- f. audit procedures

3. **Loan Commitments**

- a. Types of loans offered- terms, pricing, conditions, covenants, loan agreements, collateral requirements, limitations/acceptable use of proceeds Note: CDFIs may offer loans from other capital sources for the following purposes; however, proceeds from the PCD Bank Loan may not be used to fund loans for the purposes listed below:
 - Passive real estate ownership.
 - Manufacture or sale of products used in illegal or illicit activities.
 - Operations of bars or taverns.
 - Operations that derive more than 25 percent of its gross revenues from services related to the termination of pregnancy, materials, product or services.
 - Operations established for the manufacture, sale or distribution of sexually-oriented materials.
 - Operations of primarily religious-oriented services or activities.
 - Operations of private clubs.
 - Operations of sky boxes or other private luxury boxes.
 - Operations of gambling facilities.
 - Operations of racetracks.
 - Operations of hot-tub facilities or massage parlors.
 - Manufacture, distribution or sale of products or services that violate the clearly-expressed public policies of the Commonwealth of Pennsylvania.

- b. On-going information required of borrower by CDFI- financial statements, site visits, audits, periodic meetings
- c. On-going technical and business development assistance required- direct or indirect, contracted or verbal requirement.

4. Loan Disbursement Policies

- a. procedures in place to ensure proper management of loan funds
- b. audit procedures
- c. loan accounting systems

5. Loan Review/Loan Collection Policies

- a. management's role in reviewing loan performance, delinquencies
- b. collection procedures for past due loans
- c. reporting requirements for problem loans
- d. policies for problem loan/ charge off
- e. policies for loan recovery practices
- f. internal audit procedures for problem loans
- g. maintenance of client files
- h. loan "risk rating" practices
- i. policies for maximum loan concentrations, i.e., single dollars to one borrower, concentration of loans to business segment/industry

6. Financial Management Policies

- a. asset/liability management practices
- b. investment practices
- c. financial reporting practices
- d. use of external advisors for investments
- e. use of external accountants for financial reporting/audit
- f. internal auditing procedures

G. Portfolio Performance

Historical performance of the CDFI's loan portfolio will be a primary factor in approving any loans made by PCD Bank. Loan applicants must convey detailed information on the historical and current portfolio performance so that PCD Bank can determine the overall quality of loans made by the CDFI and to evaluate the potential repayment of the PCD Bank loan. The loan applicant must demonstrate that the organization's performance has been strong with a limited percentage of loan losses, controlled delinquency problems and active collection practices for problem loans. PCD Bank will measure the percentage of loan problems relative to portfolio size and maturity of the CDFI, type of constituents supported, as well as management practices/policy revisions that have been implemented to address problems.

1. Loan Volume

- a. Changes/stability in loan volume (number of loans; dollars outstanding).
- b. Growth in portfolio:
 - Reason for growth.
 - Ability to manage expanded loan portfolio.

2. Portfolio volume relative to market needs

- a. Based upon market analysis, what impact has there been on the targeted market due to the CDFI's loan program?

3. Repayment Experience

- a. Historical performance since inception of lending program
- b. Delinquencies (percent based on number of loans outstanding and percent based upon dollars outstanding):
 - Percent past due, but not problematic
 - Percent troubled
 - Percent not collectible
 - Primary reasons for delinquencies
- c. Loan Receivable Aging: (percent based on number of loans outstanding and percent based upon dollars outstanding)
 - Current loans
 - 15 days past due
 - 30 days past due
 - 60 days past due
 - 90 days past due
 - over 90 days past due

4. Charge Off Experience

- a. Number of loans and total dollars charged off since inception.
- b. Number of loans and total dollars charged off within 24 months of application to PCD Bank.

5. Loan Recovery Experience

- a. Funds recovered relative to dollars charged off.
- b. Percentage of loans recovered from collateral liquidation.

6. Portfolio Concentrations

- a. Percentage of loans to any one borrower.
- b. Percentage of loans to business segment/industry.

H. Financial Performance

PCD Bank will require the submission of two to five years of financial statements. Form content and period-of-time will vary depending on size of the organization and length of time CDFI has been in operation. Statements must be prepared by an independent CPA, according to GAAP, and satisfactory to PCD Bank; and will include balance sheet, income statement and footnotes to the statements. PCD Bank will measure the CDFI's ability to manage the total financial operations, assess the CDFI's ability to repay the requested loan, as well as continue to support obligations to investors and cover other operating costs.

1. **Revenue Growth/Stability**
2. **Expense Control**
 - a. Consistency in expenses, relative to revenue growth.
 - b. Personnel cost/loan.
 - c. Operating costs/loan.
 - d. Extent to which operations are covered by loan and fee income.
 - e. Dependency on grant/contribution sources to cover operating costs.
3. **Capitalization Mix**
 - a. Total debt/equity.
 - b. Retained earnings.
 - c. Type and terms of investor notes.
 - d. Cost of capital.
4. **Level of self-sufficiency through operations**
5. **Ability to raise funds needed for operations**
6. **Investor Development**
7. **Diversity of investor pool, number of investors, dependency on an individual investor**

Note: The recipient of a loan from PCD Bank must provide certification to the Department that the recipient does not have any outstanding municipal debts in the form of delinquent real estate taxes or municipal utility bills that are more than one year past their due date.

I. Projected Operations

PCD Bank will review the projected statement of operations, as presented in the Five Year Comprehensive Business Plan. Projections must include:

1. Balance sheet and income statement.
2. Source of matching funds relative to the loan request.
3. Description of investor development/investor pay-out requirements.
4. A full description of assumptions to the projected financial statements.

5. Fund raising strategies that will be employed.

PCD Bank will measure the viability of the projections, based upon historical performance and correlation of projections to the business plan. Projections must also include the impact of the requested PCD Bank on operations. The CDFI must demonstrate an ability to repay the PCD Bank Loan in its projected operations.

J. Application Submission

Applications must be submitted online through the electronic Single Application for Assistance utilizing the www.newPA.com website. All supporting documentation that cannot be attached as an addenda to the application must be submitted to:

PA Department of Community & Economic Development
Customer Service Center
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

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Appendix A – Performance Standards and Measures for Capacity Building Grants

Measures for Expansion Grants

May be customized for each grantee based upon Expected Outcomes section of application.

Measures for Development Services Grants

1. Program Measures during contract timeframe:
 - Number of business contacts/initial screens
 - Number of participants receiving training or technical assistance
 - Number of new businesses established
2. Number of Participants who are:
 - Minority
 - Women
 - Rural
 - Low-Income
 - Former Public Assistance Recipients
3. Impact on CDFI Lending:
 - Number of referrals to CDFI for loans
 - Number of participants receiving CDFI loans
 - Number of participants who received technical assistance but did not qualify for financial assistance
4. Impact on other community lending programs:
 - Number of referrals to other loan programs
 - Number of participants receiving traditional loans

Appendix B – Federal Certification Requirements for Community Development Financial Institutions

The federal regulations governing the certification of Community Development Financial Institutions (CDFIs) are found at 12 CFR Part 1805, Subpart B—Eligibility § 1805.200. Federal certification is just one step in obtaining state accreditation. Below is a description of the federal certification requirements.

Primary Mission: A CDFI shall have a primary mission of promoting community development.

Target market: A CDFI shall serve an Investment Area(s) or Targeted Population(s).

Financing entity: A CDFI shall be an entity whose predominant business activity is the provision of loans or development investments.

Development Services: A CDFI, directly or through an affiliate, shall provide Development Services in conjunction with loans or Development Investments.

Accountability: A CDFI must maintain accountability to residents of its Investment Area(s) or Targeted Population(s) through representation on its governing board or otherwise.

Non-government entity: A CDFI shall not be an agency or instrumentality of the government of the United States, or any state or political subdivision thereof. An entity that is created by, or that receives substantial assistance from one or more government entities, may be a CDFI provided that is not controlled by such entities and maintains independent decision-making power over its activities.

Below is an excerpt from the Federal regulations describing additional requirements imposed on depository institution holding companies and insured depository institutions.

- (1) A Depository Institution Holding Company may qualify as a CDFI only if it and its Affiliates collectively satisfy the requirements described in paragraphs (a) through (g) of this section.
- (2) No Affiliate of a Depository Institution Holding Company may qualify as a CDFI unless the holding company and all of its Affiliates collectively meet the requirements described in paragraphs (a) through (g) of this section.
- (3) No Subsidiary of an Insured Depository Institution may qualify as a CDFI if the Insured Depository Institution and its Subsidiaries do not collectively meet the requirements described in paragraphs (a) through (g) of this section.
- (4) For the purposes of paragraphs (1), (2) and (3) of this section, an Applicant will not be considered to be a Subsidiary of any Insured Depository Institution or Depository Institution Holding Company that controls less than 25 percent of any class of its voting shares, and which does not, in any manner, otherwise control the election of a majority of directors of the Applicant.

The following excerpt from the Federal Regulations describes “Target Markets”, including “Investment Area” and “Targeted Population”.

Subpart C—Target Markets

§ 1805.300 Target markets—general.

An Applicant shall designate one or more Investment Area(s) or Targeted Population(s) that it proposes to serve. An Applicant may also choose to serve both an Investment Area(s) and a Targeted Population(s). An Investment Area shall meet specific geographic and other criteria discussed in § 1805.301. A Targeted Population shall consist of Low-Income persons or those who otherwise lack adequate access to loans or equity investments.

§ 1805.301 Investment Area.

- (a) General. A geographic area will be considered eligible for designation as an Investment Area if it:
- (1)(i) Meets at least one of the objective criteria of economic distress as set forth in paragraph (d) of this section and has significant unmet needs for loans or equity investments as described in paragraph (e) of this section; or
 - (ii) Encompasses or is located in an Empowerment Zone or Enterprise Community designated under section 1391 of the Internal Revenue Code of 1986 (26 U.S.C. 1391); and
- (2) Is entirely located within the geo-graphic boundaries of the United States (which shall encompass any State of the United States, the District of Columbia or any territory of the United States, Puerto Rico, Guam, American Samoa, the Trust Territories of the Pacific Islands, the Virgin Islands, and the Northern Mariana Islands).
- (b) Geographic units. An Investment Area shall consist of a geographic unit(s) that is a county (or equivalent area), minor civil division that is a unit of local government, incorporated place, census tract, block numbering area, block group, or American Indian or Alaska Native area (as such units are defined or reported by the U.S. Bureau of the Census). An Applicant can designate one or more Investment Areas as part of a single application.
- (c) Designation. An Applicant can designate an Investment Area by selecting:
- (1) A geographic unit(s) which individually meets one of the criteria in paragraph (d) of this section; or
 - (2) A group of contiguous geographic units which together meet one of the criteria in paragraph (d) of this section, provided that the combined population residing within individual geo-graphic units not meeting any such criteria does not exceed 15 percent of the total population of the entire Investment Area.
- (d) Distress criteria. An Investment Area (or the units that comprise an area) must meet at least one of the following objective criteria of economic distress (as reported in the 1990 (or sub-sequent) decennial Census and published by the U.S. Bureau of the Census):
- (1) The percentage of the population living in poverty is at least 20 percent;
 - (2) In the case of an Investment Area located:
 - (i) Within a Metropolitan Area, the median family income shall be at or below 80 percent of the Metropolitan Area median family income or the national Metropolitan Area median family income, whichever is greater; or

- (ii) Outside of a Metropolitan Area, the median family income shall be at or below 80 percent of the statewide non-Metropolitan Area median family income or the national non-Metropolitan Area median family income, which-ever is greater;
- (3) The unemployment rate is at least 1.5 times the national average;
- (4) The percentage of occupied distressed housing (as indicated by lack of complete plumbing and occupancy of more than one person per room) is at least 20 percent; or
- (5) In areas located outside of a Metropolitan Area, the county population loss between 1980 and 1990 is at least 10 percent.
- (e) Unmet needs. An Investment Area will be deemed to have significant unmet needs for loans or equity investments if studies or other analyses provided by the Applicant adequately demonstrate a pattern of unmet needs for loans and equity investments within such area(s).

§ 1805.302 Targeted Population.

- (a) A Targeted Population shall mean individuals, or an identifiable group of individuals, who: Are Low-Income per-sons; or lack adequate access to loans or equity investments. An Applicant can serve the members of a Targeted Population directly or through borrowers or investees that directly serve or provide significant benefits to such members.
- (b) The members of a Targeted Population shall reside within the boundaries of the United States (which shall encompass any State of the United States, the District of Columbia or any territory of the United States, Puerto Rico, Guam, American Samoa, the Trust Territories of the Pacific Islands, the Virgin Islands, and the Northern Mariana Islands).
- (c) An Applicant shall provide its products and services in a manner that is consistent with the Equal Credit Opportunity Act (15 U.S.C. 1691), to the extent that the Applicant is subject to the requirements of such Act.

Appendix C – PCD Bank Accreditation Standards for Loan Applicants

The Pennsylvania Community Development Bank (PCD Bank) will evaluate community lending institutions as potential borrowers based upon the PCD Bank Accreditation Standards listed below. Please note that the Accreditation review may be performed by PCD Bank staff and/or an outside third party. Once the Accreditation Standards have been met, each institution will be assessed according to the PCD Bank Underwriting Criteria. Following the underwriting assessment and PCD Bank approval of a Borrower, Credit Facility documentation will be established that outlines terms and conditions of financing from PCD Bank.

1. The applicant must be based in Pennsylvania.
2. The applicant will use funds issued by PCD Bank to provide loans for business activities and projects based in Pennsylvania.
3. The applicant must be certified as a Community Development Financial Institution (CDFI) by the U.S. Department of Treasury.
4. The applicant may be a for-profit or not-for-profit entity and must meet all requirements described in the Community Development Financial Institutions Fund, 12 CFR Part 1805, including but not limited to:
 - a. Having a primary mission of community development, and
 - b. having as its predominant business activity the provision of loans or investments, and
 - c. serves an under-served investment area or targeted population.
5. The applicant, or its sponsoring organization, must have a minimum of 24 months experience in direct lending activities.
6. The applicant (and its affiliates/parent organization) must demonstrate a limitation of access to traditional capital markets.
7. The loans being funded by PCD Bank must be for community and economic development activities as outlined in the Business Plan.
8. The applicant must provide financial statements, satisfactory to PCD Bank, and prepared by an independent Certified Public Accountant, prepared in accordance with GAAP. The form, content and number of years of statements submitted will be determined by the asset size of the organization and the length of time the CDFI has been operating.
9. The applicant must demonstrate a strong historical performance, including underwriting practices, portfolio management, risk management, overall financial performance and internal audit procedures.
10. The applicant must be willing to submit all required documentation necessary for PCD Bank and is willing to have on-site visits, if necessary, to complete an extensive review and analysis of the organization.
11. The applicant's Board of Directors must:
 - a. Include representatives from the community [geographical] it serves or population it targets;
 - b. Support the core mission of providing loans or investments to its target geography/population.
 - c. Have a majority of its representatives from the private sector.

12. The applicant must submit a current Five Year Comprehensive Business Plan, prepared no more than six months prior to the request for Accreditation from PCD Bank, describing all of the following items:
 - a. Depth, breadth and stability of management experience in community and/or economic development lending;
 - b. Management's capacity to maintain successful operations;
 - c. Market analysis including methodology of determining client needs and statistical data that supports financial projections;
 - d. Response to market needs including specific information on how the CDFI supports a traditionally under-served market;
 - e. Marketing and outreach plans to loan customers that support the financial projections;
 - f. Product offerings including loan terms and interest rates;
 - g. Policies for underwriting, loan administration, risk management, portfolio management;
 - h. Budget requirements, funding/capitalization strategies and financial projections for the period of the plan;
13. A minimum financing need of \$250,000 from PCD Bank during the five years outlined in the CDFI's Comprehensive Business Plan.

PEDFA Board Approved on March 24, 1998

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PENNSYLVANIA COMMUNITY DEVELOPMENT BANK APPLICATION FOR STATE ACCREDITATION

SECTION I: APPLICANT INFORMATION	
ORGANIZATION NAME:	
PRIMARY BUSINESS ADDRESS:	
TELEPHONE NUMBER:	FAX NUMBER:
E-MAIL ADDRESS:	
PRIMARY CONTACT PERSON:	
TITLE:	
IF ORGANIZATION OR PARENT/AFFILIATE ORGANIZATION IS HEADQUARTERED IN A DIFFERENT STATE/COUNTRY, PLEASE INDICATE HERE WITH ADDRESS:	
BUSINESS TYPE: (CHECK ONE) <input type="checkbox"/> Non-Profit <i>(Please attach documentation to verify tax-exempt status)</i> <input type="checkbox"/> For-Profit	

SECTION II: FEDERAL CERTIFICATION INFORMATION
PA STATE ACCREDITATION WILL BE GIVEN TO THOSE ORGANIZATIONS THAT HAVE BEEN OFFICIALLY CERTIFIED BY THE U.S. TREASURY'S COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND.
A. Please attach documentation indicating that the applicant is a Certified Community Development Financial Institution, including date of certification and signature of an authorized individual from the CDFI Fund.
B. Please indicate that applicant meets all regulations governing the certification of the CDFI Fund found at 12 CFR Part §1805, including, but not limited to : <ol style="list-style-type: none"> 1. Applicant has a primary mission of promoting community development 2. Applicant serves an Investment Area(s) or Targeted Population(s). 3. Applicant is an entity whose predominant business activity consists of the provision of loans or development investments. 4. Applicant, directly or through an affiliate, provides Development Services in conjunction with loans or Development Investments. 5. Applicant maintains accountability to residents of its Investment Area(s) or Targeted Population(s) through representation on its governing board or otherwise. 6. Applicant is not an agency or instrumentality of the government of the United States, or any state or political subdivision thereof. Applicant meets all regulations <input type="checkbox"/> Yes <input type="checkbox"/> No If <u>no</u> , please describe circumstances:

PENNSYLVANIA COMMUNITY DEVELOPMENT BANK APPLICATION FOR STATE ACCREDITATION

<p>C. Identify Investment Area(s) or Targeted Population(s) Served</p>		
<p>1. Investment Area(s): List locations served by the applicant. Please indicate name(s) of county or counties served. If market is smaller than one county, please list municipalities served. If market is too large to list here, please attach information on separate sheet.</p>		
<p>2. Targeted Population(s): Please identify population served, if target market is not defined in geographic terms.</p>		
<p>3. Organizational History</p>		
<p>DATE OF INCORPORATION:</p>	<p>DATE LENDING OPERATIONS COMMENCED:</p>	<p>DATE INVESTMENT OPERATIONS COMMENCED:</p>
<p>Has there been any business interruption or organizational moratorium of lending/investing since inception of operations? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If so, please describe in detail, the timeframe and reason for lending/investment interruption. <i>(Please attach separate sheets if needed)</i></p>		
<p>D. Please identify all types of loans and/or investments that are offered by your organization.</p>		



Pennsylvania Business Opportunities Fund

Program Guidelines

March 2009

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Commonwealth of Pennsylvania
Tom Wolf, Governor

Department of Community & Economic Development



dced.pa.gov

Table of Contents

Introduction	1
Business Opportunities Fund Program Guidelines	2
I. Statement of Purpose	2
II. Eligible Businesses	2
III. Eligible Uses of Funds	2
IV. Loan Parameters	2
V. Technical Assistance	2
VI. Contact	2

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Introduction

The Pennsylvania Community Development Bank (PCD Bank) is pleased to provide the program guidelines and application for the Pennsylvania Business Opportunities Fund (BOF). The Business Opportunities Fund has been developed in conjunction with the Pennsylvania Department of General Services (“DGS”). Initial funding in the amount of \$4 million has been used to create a fund (the “Fund”) to provide loans and technical assistance to minority business enterprises, women-owned business enterprises (minority and women-owned businesses as defined by the PA Department of General Services) and small businesses (the “Clients”) within the geographical service area of participating Community Development Financial Institutions (“CDFIs”).

These guidelines provide an overview of eligibility criteria, financing structure, and application procedures for this program. The application is specific to this program and should be submitted directly to the specific CDFI. Please call the contact below for the most recent listing of participating CDFIs.

To submit an application or if you have any questions regarding the Business Opportunities Fund, please contact:

PA Department of Community & Economic Development
Center for Private Financing
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
717-783-1109

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Business Opportunities Fund Program Guidelines

I. Statement of Purpose

The Business Opportunities Fund (BOF) was established in 2008. The purpose of this program is to assist small minority or woman-owned contractors and other small business owners who lack access to lines of credit or small business loans from traditional financial institutions. Lack of access to credit prevents these businesses from competing for governmental and private sector contracts. These business owners often require technical assistance in governmental procurement including achieving necessary certification, and bid preparation. The BOF is designed to assist borrowers with both financing and technical assistance.

II. Eligible Businesses

Any small business enterprises may apply, but the program will give priority to small businesses requiring capital and technical assistance in order to compete for governmental and private sector contracts. This program is open to businesses located in the following counties: Adams, Berks, Chester, Cumberland, Dauphin, Franklin, Lancaster, Lebanon, Lehigh, Montgomery, Northampton, Perry, York, Allegheny, Armstrong, Beaver, Butler, Clarion, Crawford, Erie, Fayette, Greene, Indiana, Lawrence, Mercer, Washington and Westmoreland.

III. Eligible Uses of Funds

1. **Cash flow (working capital):** Including most business operation and expansion expenses.
2. **Equipment:** Includes acquisition, delivery, installation, and renovation of new and used equipment.
3. **Leasehold improvements**
4. **Acquisition of owner-occupied commercial real estate**

IV. Loan Parameters

Depending on the needs and financial condition of the borrower, the program will provide installment loans and lines of credit. There are no minimum or maximum loan sizes. Interest rates and other terms and conditions are determined by the participating CDFI.

V. Technical Assistance

When necessary, the participating CDFIs will provide technical assistance to borrowers in procurement, certification as minority or women contractors, bonding and bid preparation.

VI. Contact

Program inquiries should be directed to:

PA Department of Community & Economic Development
Center for Private Financing
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
Phone: 717-783-1109