

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Bank Enterprise Award Program

2005 - 2006 Application
Glossary of Terms
Supplemental Guidance for Applicants

Applicants should use this guidance in conjunction with the BEA Program Regulations, FY2005- FY 2006 NOFA, and Application (all available on the BEA page of the Fund's website: www.cdfifund.gov).

Glossary of Terms

TERM	DEFINITION
Act	The Community Development Banking and Financial Institutions Act of 1994, as amended (12 U.S.C. 4701 et seq.);
Affiliate	Any company that controls, is controlled by, or is under common control with another company.
Affordable Housing Development Loan and Project Investment	The origination of a loan or investment to finance the acquisition, construction, and/or development of single- or multi-family residential real property, where at least sixty percent of the units in such property affordable to Low- and Moderate-Income individuals. Affordable is defined as a unit that is or will be sold or rented to a Low- and Moderate-Income Individual. A loan for, or Project Investment in, single-family housing or multifamily housing development projects should be reported as Affordable Housing Development Loans and Project Investments, rather than as Commercial Real Estate transactions.
Affordable Housing Loan	The origination of a loan to finance the purchase or improvement of the borrower's primary residence, and that is secured by such property. In order to be considered a Qualified Activity, the borrower must be a Low- and Moderate-Income individual. Affordable Housing Loan may also refer to second (or otherwise subordinated) liens or "soft second" mortgages, and other similar types of downpayment assistance loans but may not necessarily be secured by such property originated for the purpose of facilitating the purchase or improvement of the borrower's primary residence, where such borrower is a Low- and Moderate-Income individual.
Applicant	Any insured depository institution (as defined in section 3(c)(2) of the Federal Deposit Insurance Act (12 U.S.C. §1813)) that is applying for a Bank Enterprise Award;
Appropriate Federal Banking Agency	Has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. §1813).
Assessment Period	An annual or semi-annual period specified in the applicable Notice of Funds Availability in which an Applicant will carry out, or has carried out, Qualified Activities.
Authorized Representative	An officer, or other individual, who has the actual authority to sign for and make representations on behalf of the Applicant.
Award Agreement	A formal agreement between the Fund and an Awardee pursuant to § 1806.300 of the BEA Program regulations.
Awardee	An Applicant selected by the Fund to receive a Bank Enterprise Award;
Bank Enterprise Award (or BEA Program Award)	An award made to an Applicant through the BEA Program.
Baseline Period	An annual or semi-annual period specified in the applicable NOFA in which an Applicant has previously carried out Qualified Activities.
Commercial Real Estate Loans and related Project Investments	An origination of a loan (other than an Affordable Housing Loan) that is secured by real estate and used to finance the acquisition or rehabilitation of a building, or the acquisition, construction and or development of property, used for commercial purposes.
Community Development Entity (or CDE)	Any Qualified Community Development Entity that meets the requirements set forth at Internal Revenue Code (IRC) § 45D(c)(1) and that has been certified as such by the Fund
Community Development Financial Institution (CDFI)	An entity whose certification as a CDFI under § 1805.201 of this chapter is in effect as of the end of the applicable Assessment Period (the Assessment Period in which the Qualified Activity takes place) and that meets the

	<p>requirements of § 1805.200 of this chapter at the time of the Qualified Activity, subject to the rest of this paragraph (p). If an Applicant is proposing to engage in CDFI Related Activities with an uncertified CDFI, the uncertified CDFI may apply for certification by submitting the information described in § 1805.701(b) of this chapter. In order for the Applicant to be eligible to receive a Bank Enterprise Award for its CDFI Related Activities, the required information with respect to the uncertified CDFI shall be submitted to the Fund as specified in the applicable NOFA, and certification must be completed by the end of the applicable Assessment Period as specified in the applicable NOFA. Notwithstanding anything in this paragraph (p) to the contrary, an Applicant may receive an award pursuant to this part for assistance provided to an uncertified CDFI that, at the time of the Qualified Activity, does not meet the requirements of § 1805.200 of this chapter if the uncertified CDFI is certified by the end of the applicable Assessment Period.</p>
CDFI Certificate of Deposit	A certificate of deposit or other similar instrument placed by an Applicant or its Subsidiary in an insured CDFI whereby such deposit is: (1) uninsured and committed for a term of at least three years; or (2) insured, committed for a term of at least three years, and provided at an interest rate that is <i>Materially Below Market Rates</i> .
CDFI Partner	A CDFI that has been provided assistance in the form of CDFI Related Activities by an Applicant.
CDFI Equity Investment	See Equity Investment.
CDFI Related Activities	Equity Investments (Including Grants), Equity-Like Loans and CDFI Support Activities;
CDFI Support Activities	<p>Assistance provided by an Applicant or its Subsidiary to a CDFI that meets criteria set forth by the Fund in the applicable NOFA, that is Integrally Involved in a Distressed Community, in the form of the origination of a loan, technical assistance, or deposits if such deposits are:</p> <p>(1) Uninsured and committed for a term of at least three years; or</p> <p>(2) Insured, committed for a term of at least three years, and provided at an interest rate that is materially (in the determination of the Fund) below market rates;</p>
Certificate of Deposit	See CDFI Certificate of Deposit
Commercial Real Estate Loan	A new origination of a loan (other than Multi-Family Loan or Single-Family Loan) used for commercial purposes to finance construction and land development or an origination of a loan that is secured by real estate and used to finance the acquisition or rehabilitation of a building used for commercial purposes.
Community Facilities Loan	A new origination of a loan used to finance the acquisition, development or renovation of facilities where health care, childcare, educational, social services, or religious services are provided. Reported under Commercial Real Estate Loans.
Community Services	Assistance provided by officers, employees, or agents (contractual or otherwise) of the Applicant including: (1) provision of technical assistance to Residents on managing their personal finances through consumer education programs; (2) provision of technical assistance and consulting services to newly formed small businesses located in the Distressed Community; (3) provision of technical assistance to, or servicing the loans of, Low- or Moderate-Income homeowners, and homeowners located in the Distressed Community; and (4) other similar services provided for Low- or Moderate-Income persons in a Distressed Community or enterprises integrally involved in a Distressed Community deemed appropriate by the Fund.
Deposits	See CDFI Certificate of Deposits

Deposit Liabilities	Time or savings deposits or demand deposits, accepted from Residents at offices of the Applicant, or a Subsidiary of the Applicant, located within the Distressed Community. Depository Liabilities may only include deposits held by individuals in transaction accounts (i.e., demand deposits, NOW accounts, automated transfer service accounts and telephone or preauthorized transfer accounts) or nontransaction accounts (i.e., money market deposit accounts, other savings deposits and all time deposits), as defined by the Appropriate Federal Banking Agency.
Depository Institution Holding Company	A bank holding company or a savings and loan holding company as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813 (w)(1)).
Distressed Community	<p>A geographic community which meets the minimum area eligibility requirements specified in § 1806.200, and such additional criteria as may be set forth in the applicable NOFA.</p> <p>For the FY 2005 – FY 2006 NOFA: A Distressed Community must meet the following minimum area eligibility requirements:</p> <p>Geographic requirements. A Distressed Community must be a geographic area: (i) that is located within the boundaries of a Unit of General Local Government; (ii) the boundaries of which are contiguous; and (iii) (A) the population of which is at least 4,000 if any portion of the area is located within a Metropolitan Area with a population of 50,000 or greater; or (B) the population must be at least 1,000 if no portion of the area is located within such a Metropolitan Area. If an area is located entirely within an Indian Reservation there is no minimum population requirement.</p> <p>Distress requirements. A Distressed Community must be a geographic area where: (i) at least 30 percent of the Residents have incomes that are less than the national poverty level, as published by the U.S. Bureau of the Census in the most recent decennial census; and (ii) the unemployment rate is at least 1.5 times greater than the national average, as determined by the U.S. Bureau of Labor Statistics' most recent data (including estimates of unemployment developed using the U.S. Bureau of Labor Statistics' Census Share calculation method).</p> <p>Area designation. An Applicant shall designate an area as a Distressed Community by: (i) selecting Geographic Units which individually meet the minimum area eligibility requirements; or (ii) selecting two or more Geographic Units which, in the aggregate, meet the minimum area eligibility requirements set forth in paragraph (b) of this section provided that no Geographic Unit selected by the Applicant within the area has a poverty rate of less than 20 percent.</p>
Distressed Community Financing Activities	Affordable Housing Loans, Affordable Housing Development Loans and related Project Investments; Education Loans; Commercial Real Estate Loans and related Project Investments; Home Improvement Loans; and Small Business Loans and related Project Investments
Education Loan	An advance of funds to a student, who is a Resident of a Distressed Community, for the purpose of financing a college or vocational education.
Electronic Transfer Account (ETA)	An account meeting the requirements, and with respect to which the Applicant has satisfied the requirements, set forth in the <u>Federal Register</u> on July 16, 1999 at 64 FR 38510, as such requirements may be amended from time to time, Direct deposit accounts that are available to individuals who are recipients of Federal benefits, wages, salary, or retirement payments. All Insured Depository Institutions that offer ETAs must do so pursuant to the requirements set forth in an agreement with the US Department of the Treasury.

Equity Investment	Financial assistance provided by an Applicant or its Subsidiary to a CDFI, which CDFI meets such criteria as set forth in the applicable NOFA, in the form of a grant, a stock purchase, a purchase of a partnership interest, a purchase of a limited liability company membership interest, or any other investment deemed to be an Equity Investment by the Fund.
Equity-Like Loans	Loans that have been made under certain terms and conditions that give them equity-like characteristics. See Supplemental Guidance for terms and conditions.
Financial Services	Check-cashing, providing money orders and certified checks, automated teller machines, safe deposit boxes, new branches, and other comparable services as may be specified by the Fund in the applicable NOFA, that are provided by the Applicant to Low-and Moderate-Income individuals in the Distressed Community or enterprises Integrally Involved in the Distressed Community
First Accounts	A low-cost account and such other services designed to expand access to financial services for Low-and Moderate-Income individuals, provided pursuant to grants made under the Consolidated Appropriations Act, 2001 (Public Law 106-554, 114 Stat. 2763, 2763A-126), and the Department of Transportation and Related Agencies Appropriations Act, 2001 (Public Law 106-346, 114 Stat. 1356, 1356A-44). See Supplemental Guidance for additional information.
Fund	The Community Development Financial Institutions Fund, established under section 104(a) of the Act (12 U.S.C. 4703(a)).
Geographic Units	Counties (or equivalent areas), incorporated places, minor civil divisions that are units of local government, census tracts, block numbering areas, block groups, and American Indian or Alaska Native areas (as each is defined by the U.S. Bureau of the Census) or other areas deemed appropriate by the Fund;
Home Improvement Loan	An advance of funds, either unsecured or secured by a one-to-four family residential property, the proceeds of which are used to improve the borrower's primary residence.
Indian Reservation	A geographic area that meets the requirements of section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)), and shall include land held by incorporated Native groups, regional corporations, and village corporations, as defined in and pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et seq.), public domain Indian allotments, and former Indian Reservations in the State of Oklahoma
Individual Development Accounts (IDA)	An account that meets the requirements, and with respect to the provision of which Applicant has satisfied the requirements, set forth in the U.S. Department of Health and Human Services Program Announcement OCS-2000-04, published on December 14, 1999 in the Federal Register at 64 FR 69824, as such requirements may be amended from time to time Matched savings accounts for qualified individuals that are restricted for use for specific activities, including home purchase, post-secondary education, and business capitalization. Generally, most IDA programs limit eligibility to individuals meeting certain characteristics (e.g. low-income individuals).
Insured Credit Union	Any credit union, the member accounts of which are insured by the National Credit Union Share Insurance Fund.
Insured Depository Institution	Any bank or thrift, the deposits of which are insured by the Federal Deposit Insurance Corporation.
Integrally Involved	(i) For a CDFI Partner, having provided at least five percent of financial transactions or dollars transacted (e.g., loans or equity investments as defined in 12 CFR 1805.104(s)), or five percent of Development Service activities, in the Distressed Community identified by the Applicant or the CDFI Partner, as applicable, in each of the three calendar years preceding the date of the applicable NOFA. or having transacted at least ten percent of financial

	<p>transactions (e.g., loans or equity investments) in said Distressed Community in at least one of the three calendar years preceding the date of the applicable NOFA, or demonstrating that it has attained at least five percent of market share for a particular product in said Distressed Community (such as at least five percent of home mortgages originated in said Distressed Community) in at least one of the three calendar years preceding the date of the applicable NOFA; or (ii) for a non-CDFI, having directed at least five percent of its business activities (e.g., investments, revenues, expenses, or other appropriate measures) to serving the Distressed Community identified by the Applicant in each of the three calendar years preceding the date of the applicable NOFA, or having provided at least ten percent of its business activities in said Distressed Community in at least one of the three calendar years preceding the date of the applicable NOFA.</p>
Low- and Moderate-Income	<p>Income that does not exceed 80 percent of the median income of the area involved, as determined by the Secretary of Housing and Urban Development, with adjustments for smaller and larger families pursuant to section 102(a)(20) of the Housing and Community Development Act of 1974 (42 U.S.C. § 5302(a)(20)).</p>
Materially Below Market Rates	<p>An annual rate that does not exceed 80% of the rate on a U.S. Treasury bill of comparable maturity (using the discount rate) as of the date the deposit is placed. The rate can be found at the Federal Reserve website: www.federalreserve.gov/releases/H15/update.</p> <p>The rate on the website is updated daily at approximately 4:00 p.m. Eastern Time. Deposits closed prior to that time may use the rate posted for the previous day.</p>
Metropolitan Area	<p>An area designated as such (as of the date of the application) by the Office of Management and Budget pursuant to 44 U.S.C. 3504(d)(3), 31 U.S.C. 1104(d), and Executive Order 10253 (3 CFR, 1949-1953 Comp., p. 758), as amended.</p>
Multi-Family Loan	<p>A new origination of a loan secured by a five-or more family residential property and financing related to the construction or rehabilitation of such property.</p>
Notice of Funds Availability (or NOFA)	<p>The public notice, published by the Fund in the Federal Register, that announces the availability of BEA Program funds for a particular funding round and that advises Applicants with respect to obtaining application materials, establishes application submission deadlines, and established other requirements or restrictions applicable for the particular funding round including, for example, application contents, further qualifications of Qualified Activities, Priority Factors, related policy directives, and any restrictions on Bank Enterprise Award amounts;</p>
Priority Factor	<p>A numeric value assigned to each type of activity within each category of Qualified Activity, as may be established by the Fund in the applicable NOFA. A priority factor represents the Fund's assessment of the degree of difficulty, the extent of innovation, and the extent of benefits accruing to the Distressed Community for each type of activity;</p>
Project Investment	<p>Providing financial assistance in the form of a purchase of stock, limited partnership interest, other ownership instrument, or a grant to an entity that is Integrally Involved in a Distressed Community and formed for the sole purpose of engaging in a project or activity, approved by the Fund, including Affordable Housing Development Loans, Affordable Housing Loans, Commercial Real Estate Loans, and Small Business Loans.</p>
Qualified Activities	<p>CDFI Related Activities, Distressed Community Financing Activities, and Service Activities</p>
Reporting Period	<p>The period during which an Applicant may disburse on its Qualified Activities. An Applicant may only measure the amount of a Qualified Activity that it</p>

	reasonably expects to disburse to an investee, borrower, or other recipient within one year of the end of the applicable Assessment Period, or such other period as may be set forth by the Fund in the applicable NOFA
Resident	An individual domiciled in a Distressed Community.
Service Activities	Deposit Liabilities; Financial Services; Community Services; Targeted Financial Services; and Targeted Retail Savings/Investment Products.
Single-Family Loan	A new origination of a loan secured by a one to four family residential property, including townhouses for purchase and financing related to the construction or rehabilitation of single-family residences.
Small Business Loan	An origination of a loan used for commercial or industrial activities (other than an Affordable Housing Loan, Affordable Housing Development Loan, Commercial Real Estate Loan, Home Improvement Loan) to a business or farm that meets the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less. This category includes loans and investments that were reported on the institution's Call Report or TFR as either "loans Secured by nonfarm or nonresidential real estate" or "Commercial and industrial loans." Applicants may also include small farm loans (i.e., loans reported as either "Loans to Finance agricultural production and other loans to farmers" or "Loans secured by farmland." Such loans may include commercial loans (i.e., a loan to a company to meet business operating expenses or to finance the purchase of inventory), commercial mortgage or income property loans (i.e., a mortgage loan secured by real estate used by a business or to generate income), and agricultural loans (loans to small farmers).
Subsidiary	Has the same meaning as in section 3 of the Federal Deposit Insurance Act, except that a CDFI shall not be considered a subsidiary of any insured depository institution or any depository institution holding company that controls less than 25 percent of any class of the voting shares of such corporation and does not otherwise control, in any manner, the election of a majority of directors of the corporation.
Targeted Financial Services	ETAs, First Accounts, IDAs, and such other similar banking products as maybe specified by the Fund in the applicable NOFA.
Targeted Retail Savings/Investment Products	Certificates of deposit, mutual funds, life insurance and other similar savings or investment vehicles targeted to Low- and Moderate-Income Residents, as may be specified by the Fund in the applicable NOFA.
Unit of General Local Government	Any city, county town, township, parish, village or other general-purpose political subdivision of a State or Commonwealth of the United States, or general-purpose subdivision thereof, and the District of Columbia.

Supplemental Guidance for Applicants

The following supplemental guidance for Applicants is intended to provide additional information on specific types of Qualified Activities as well as the CDFI Fund's policies and treatment of certain issues. Any information provided should be considered in conjunction with the BEA Program regulations, FY 2005-2006 NOFA, and the Application. The guidance is organized alphabetically by subject.

Actual Award Amount: The Fund will determine the eligibility of each transaction for which an Applicant has applied for a Bank Enterprise Award. Based upon this review, the Fund will calculate the Actual Award Amount for which such Applicant is eligible. The Fund will determine Actual Award Amounts based upon the availability of funds, increases in Qualified Activities from the Baseline to the Assessment Period, and an Applicant's priority ranking. If an Applicant receives an award for more than one priority category described in this section, the Fund will combine the award amounts into a single Bank Enterprise Award.

Community Services: Community Services Activities must:

- A. Promote community development through:
 - ✓ Provision of technical assistance and consulting services to residents in managing their personal finances through consumer education programs;
 - ✓ Provision of technical assistance and consulting services to newly formed businesses located in the Distressed Community;
 - ✓ Provision of technical assistance or servicing the loans of Low- and Moderate-Income homeowners or homeowners located in the Distressed Community; or
 - ✓ Other similar services provided Low- and Moderate-Income individuals in a Distressed Community or enterprises integrally involved in a Distressed Community deemed appropriate by the Fund.
- B. Enhance: (1) access to capital in the form of lending or investment; (2) access to financial services; or (3) organizational capacity or expertise of entities integrally involved in a Distressed Community (e.g., small business counseling).
- C. Create a direct benefit to Residents of Distressed Communities or entities integrally involved in a Distressed Community (e.g., business or non-profit organizations located in or serving a Distressed Community); and
- D. Be provided directly by a bank employee acting as a representative of the bank (i.e., the activity must be undertaken as a bank employee) and the service provided must utilize the financial, banking, or business expertise of the employee.

Applicants should report Community Services based on the administrative costs of providing such services. For staff time, use the number of hours contributed times the hourly salary of the staff member. For other administrative costs (such as printing costs for informational materials), Applicants should report the actual cost. In reporting the cost of Community Service activities, the Applicant should certify that the reported items are an accurate reflection of the actual costs incurred in delivering the service.

Double Funding: The Community Development Banking and Financial Institutions Act of 1994 prohibits an insured depository institution that is a certified CDFI from receiving a BEA Program Award if it has: (i) an application pending under the CDFI Program; (ii) directly received assistance under the CDFI Program within the preceding 12-months; or (iii) ever directly received assistance under the CDFI Program for the same activity for which it seeks a BEA Program Award. (See 12 U.S.C. § 1834a(g) and 12 C.F.R. §§ 1805.102(a) and 1806.102(a))

The Fund will not issue a BEA Program Award to a BEA applicant, if such applicant has an application pending under the CDFI Program at the time the Fund issues its BEA Program Awards. To illustrate this policy, we offer the following example:

Example 1: On November 20, 1999, the Fund receives a BEA application from ABC Bank, an insured depository institution that also is a certified CDFI. On January 20, 2000, the Fund receives an application from ABC Bank for a CDFI Program Award. On September 25, 2000, the Fund selects and notifies awardees of their BEA Program Awards. ABC Bank's CDFI Program application is still pending. As a result, ABC Bank is ineligible to receive a BEA Program Award because it has an application pending under the CDFI Program.

The Fund will not select an organization to receive a BEA Program Award if the Fund has directly disbursed assistance under the CDFI Program to such BEA applicant within 12 months prior to the date the Fund selects organizations to receive BEA Program Awards. To illustrate this policy, we offer the following examples:

Example 2: ICU Bancorp, a depository institution holding company and a certified CDFI, applied for a CDFI Program award in January 1999. In September 1999, the Fund decided to award ICU Bancorp a CDFI Program award in the form of an equity investment. On November 20, 1999, the Fund receives a BEA application from ABC Bank. ABC Bank is a wholly owned subsidiary of ICU Bancorp and a certified CDFI. On March 10, 2000, the Fund enters into an Assistance Agreement with ICU Bancorp and shortly thereafter disburses the equity investment to ICU Bancorp. ICU Bancorp uses the Fund's equity investment to purchase stock in ABC Bank. ABC Bank is eligible to receive a BEA Program Award because the Fund disbursed the equity investment to ICU Bancorp -- not ABC Bank.

Example 3: On January 20, 1999, the Fund receives a CDFI Program application from XYZ Bank. XYZ Bank is an insured depository institution and a certified CDFI. On September 25, 1999, the Fund decided to award XYZ Bank a CDFI Program Award. On November 22, 1999, the Fund received a BEA application from XYZ Bank. On March 25, 2000, the Fund disburses the CDFI Program award to XYZ Bank. On September 25, 2000, the Fund selects and notifies applicants of their BEA Program Awards. XYZ Bank is ineligible to receive a BEA Program Award because the Fund disbursed the CDFI Program Award to XYZ Bank within 12 months prior to the date the Fund selects organizations to receive BEA Program Awards.

The Fund will not issue a BEA Program Award to a BEA applicant, if such applicant has ever directly received assistance under the CDFI Program for the same activities for which it seeks a BEA Program Award. To illustrate this policy, we offer the following examples:

Example 4: JKL Bank is an insured depository institution and a certified CDFI. It received a CDFI Program Award from the Fund in September 1998. In March 1999, the Fund and JKL Bank entered into an Assistance Agreement under the CDFI Program. Shortly thereafter, the Fund disbursed the CDFI Program Award to JKL Bank. The CDFI Program Assistance Agreement covers the period from January 1, 1999 through December 31, 2003. The five-year Comprehensive Business Plan submitted by JKL Bank as part of its CDFI Program application indicates that JKL Bank will expand its lending and service activities within its Investment Area. JKL Bank would like to submit an application under the BEA Program to increase its Development and Service Activities within an eligible Distressed Community. JKL Bank's Investment Area encompasses the Distressed Community. JKL Bank is ineligible to receive a BEA Program Award for such activities, because they are the same activities for which JKL Bank received a CDFI Program Award.

Example 5: On September 30, 1996, PDQ Bank, an insured depository institution and a certified CDFI, received a CDFI Program Award from the Fund. In August 1997, the Fund and PDQ Bank entered into an Assistance Agreement under the CDFI Program. Shortly thereafter, the Fund disbursed the CDFI Program Award to PDQ Bank. The CDFI Program Assistance Agreement covers the period from January 1, 1997 through December 31, 2001. The five-year Comprehensive Business Plan submitted by PDQ Bank as part of its CDFI Program application indicates that PDQ Bank will expand its lending and service activities within its Investment Area. PDQ Bank would like

to submit an application under the BEA Program to increase its CDFI Equity Investment activities. The Comprehensive Business Plan submitted to the Fund in 1996 did not discuss the applicant engaging in CDFI Equity Investment activities because this is a new product line for PDQ Bank. PDQ Bank is eligible to receive a BEA Program Award for such activities because they are different than the activities for which PDQ Bank received a CDFI Program award

Estimated Award Amount: The Estimated Award Amount for each category of Qualified Activities will be equal to the applicable award percentage of the increase in the weighted value of such Qualified Activities between the Baseline Period and Assessment Period. The award amount calculated by the Applicant and submitted to the Fund for consideration for a Bank Enterprise Award.

Equity-Like Loans: For purposes of this NOFA, Equity-Like Loans must meet the following characteristics:

1. At the end of the initial term, the loan must have a definite rolling maturity date that is automatically extended on an annual basis if the borrower continues to be financially sound and carrying out a community development mission;
2. Periodic payments of interest and/or principal may only be made out of the CDFI borrower's available cash flow after satisfying all other obligations;
3. Failure to pay principal or interest (except at maturity) will not automatically result in a default under the loan agreement; and
4. The loan must be subordinated to all other debt except for other Equity-Like Loans.

Notwithstanding the foregoing, the Fund reserves the right to determine, on a case-by-case basis, if an instrument evidences an Equity-Like Loan.

Applicants should submit to the Fund all documents evidencing loans that they wish to be considered as Equity-Like Loans not later than 45 days prior to the end of the applicable Assessment Period. The purpose for this request is to enhance the Fund's ability to provide feedback to applicants as to whether a transaction meets the Equity-Like Loan requirements prior to the end of the applicable Assessment Period. The Fund will not redraft instruments or provide language for applicants. However, the Fund may comment as to the consistency of a proposed instrument with the above-stated policy requirements. Such information will allow applicants, if they so choose, to modify the instruments to conform to the program requirements prior to the end of the Assessment Period. This process is intended to prevent circumstances in which an applicant executes loan documents without review by the Fund only to learn after the close of the Assessment Period that the transaction is ineligible for a Bank Enterprise Award. The Fund cannot guarantee timely feedback to applicants that submit the aforementioned documentation less than 45 days prior to the end of the applicable Assessment Period.

First Accounts: For purposes of the BEA Program, a First Account is low-cost bank account provided to an "unbanked" individual (i.e., someone who currently does not have a banking relationship with a mainstream financial institution). To receive consideration as a First Account activity under the BEA Program, an account must:

- Be an individually owned account at a Federally-insured depository institution;
- Permit a minimum of four cash withdrawals and four balance inquiries per month, which are included in the monthly fee, through any combination of ATM transactions and/or over-the-counter transactions;
- Allow access to the depository institution's on-line point-of-sale network (if it has one);
- Require no minimum balance except as required by Federal or state law;
- Provide a monthly statement; and
- Provide the same consumer protections available to the institution's other account holders.

Optional Considerations in Developing a First Account Product: All First Accounts must offer the required features listed above in order to be considered a Qualified Activity under the BEA Program. In designing a First Account product, BEA Program applicants may also wish to consider how offering additional features could reduce costs, increase utility to consumers, and increase demand for these low-cost account products. Applicants may wish to consider the following features in designing First Accounts:

- Low Monthly Fee: Keeping the monthly servicing fee charged to account holders as low as feasible will make a First Account more appealing to unbanked consumers. For a typical unbanked Federal benefit recipient, monthly fees were an important factor in the overall decision to enroll in an ETA-like product. Lowering the monthly fee from \$4 to \$3 on an account like the ETA was predicted to increase overall participation by 33%.
- All-Online Design and Flexible Account Opening Standards: Creating an “all-online” First Account that permits no check-writing and reduces or eliminates off-line debits can reduce the risk of overdraft for account holders and institutions, thereby reducing costs to both parties. Studies indicate that at least half of currently unbanked families had a bank account at some time in the past.¹ Some of these now-unbanked families may have exited the financial services mainstream due to experiences with bounced checks or other off-line debits that led to overdrafts and high associated fees. BEA Program applicants may wish to consider how design of a First Account product could minimize the possibility of overdrafts. To the extent that First Accounts incorporate an all-online design, BEA Program applicants may also wish to consider making these accounts available to all consumers, including those who may have had overdraft problems in the past.
- Direct Deposit: Working with businesses located in Distressed Communities to use an institution’s Direct Deposit payroll service may increase account ownership because such employers can encourage their low-wage employees to enroll in First Accounts. At the same time, Direct Deposit can save employers money over issuing paper checks to employees. Similarly, costs to a financial institution for processing a Direct Deposit are significantly lower than for handling a paper check deposit.²
- Payment of Interest on Balances: Offering the payment of interest on First Accounts balances may increase the appeal of these accounts to unbanked families. Financial institutions may, at their option, pay interest on ETA balances. Research commissioned by Treasury showed that the payment of a passbook rate of interest on an electronic account like the ETA significantly increased the number of unbanked Federal benefit recipients that signed-up for such an account. Other Treasury research estimates that the higher balances would, for the most part, offset the cost of paying interest on ETA balances that account holders would be expected to maintain.³
- Bill Payment: Including a limited number of money orders (issued either electronically or through a teller) in the monthly service charge may increase the utility and appeal of First Accounts to unbanked consumers. An all-online First Account design would likely preclude check-writing capabilities; however, account holders would probably still seek a convenient, low-cost method to make long-distance payments. Studies indicate that unbanked families frequently use money

¹ A 1997 study by John Caskey at Swarthmore College found that 71% of heads of household without deposit accounts had held a checking or savings account in the past. (See Caskey, John. 1997. *Lower Income Americans, Higher Cost Financial Services*. Filene Research Institute & Center for Credit Union Research, University of Wisconsin-Madison.) The Federal Reserve’s analysis of the 1998 Survey of Consumer Finances indicated that 48% of families without a checking account had owned such an account in the past (See Kennickell, Arthur B., Martha Starr-McCluer and Brian J. Surrette. 2000. “Recent Changes in Family Finances: Results from the 1998 Survey of Consumer Finances.” *Federal Reserve Bulletin* (January): 1-29).

² In the context of EFT '99, Treasury found that the cost of processing a Direct Deposit for a Federal payment is \$0.01, versus \$0.42 for processing and mailing a paper check.

³ *ETA Initiative: Optional Account Features*, Dove Associates, June 1998. Dove estimated that paying a passbook rate of interest (2%) on ETA balances would add only \$0.06 per month to costs.

orders to pay bills.⁴ These money orders could be bundled with stamped envelopes (which many check cashing outlets sell with money orders) to further facilitate customer payments. BEA Program applicants may also wish to consider deploying technologies in Distressed Communities that would allow First Accounts holders to pay their bills online (e.g., ATM or internet bill payment).

Hot Zones: Demonstrating that a CDFI Partner Serves: The Fund's intention is to allow a CDFI with total assets in excess of the limits imposed by the FY 2003/2004 NOFA to qualify as a CDFI Partner if it is undertaking a new initiative in a specific CDFI Program-qualified Hot Zone. The new initiative can be a new product or a targeted effort to increase the level of an existing product. The Fund is also looking for a defined Hot Zone or cluster of Hot Zones within a city, county, or state. The financial assistance from the bank applicant to the CDFI Partner must be tied to the new initiative in the defined Hot Zone(s).

A CDFI seeking consideration as a CDFI Partner serving a Hot Zone must submit:

- A map and worksheet from the CDFI Program Help Desk designating the Hot Zone, and
- A narrative describing the new initiative, how it meets the definition above, and how it will use the bank applicant financing to support the new initiative.

Please note that to the extent the applicant is seeking a Bank Enterprise Award for a CDFI Support Activity: (1) the CDFI Partner will also have to provide the required documentation demonstrating that it serves a BEA-eligible Distressed Community, and (2) the Applicant must also designate a Distressed Community (the applicant can designate the same BEA-eligible Distressed Community as CDFI Partner by submitting a signed Certification 3: Certification for Same Distressed Community Designation).

IDAs: For both the Baseline Period and the Assessment Period, an Applicant may derive the total percentage of Low- and Moderate-Income individuals who are IDA account holders by: (1) providing a certification that such customers are Low- and Moderate-Income individuals and providing a brief analytical narrative with information describing how the Applicant determined that such customers were Low- and Moderate-Income individuals; (2) using the Fund's methodology described above; or (3) the Fund will presume that IDAs established for Project Participants by financial institutions, as published in Program Announcement OCS-2000-04 ("IDA Program Announcement") in the Federal Register (64 FR 69824) in Part II (G)(3) of the IDA Program Announcement, benefit Low- and Moderate Income individuals based on the requirements of the IDA Program.

In-kind contributions: In-kind contributions to CDFIs (such as donation of equipment or office space) are not a Qualified Activity and should not be reported.

Materially Below Market Rates for CDFI Deposits: Insured Certificates of Deposit placed by an Applicant in a CDFI that is bank, thrift, or credit union must earn a rate of interest that is determined by the Fund to be Materially Below Market. A Materially Below Market interest rate is an annual rate that does not exceed 100% of the rate on a U.S. Treasury bill of comparable maturity as of the date the deposit is placed. For a three-year deposit, use the three-year rate posted for U.S. Government Securities, Treasury Constant Maturity on the Federal Reserve website at www.federalreserve.gov/releases/H15/update on the day the Certificate of Deposit is placed. The rate on the website is updated daily at approximately 4:00 p.m. ET. If, at the time the Certificate of Deposit is placed, the posted three-year rate is from the previous day, Applicants should use the posted rate. Applicants must print the rate from the website for the date a Certificate of Deposit is placed. This sheet should be submitted with the application as documentation.

⁴ Caskey found that 69% of surveyed households without deposit accounts had purchased more than 10 money orders in the previous year, and that 39 percent had purchased more than 30 (Caskey 1997).

Minority Bank. An institution in which minorities have at least 51% ownership (stock institution), the majority of Board Directors or account holders are minority (non-stock institution), or the community that the institution services is predominantly minority (any type of institution). Minorities include: African-Americans, Native Americans, Native Alaskans, Native Hawaiians, Hispanic Americans, Asian Americans, or women.

Participation Loans: A participation loan is a loan that is made jointly by two or more lenders to a borrower. Some participation loans involve a promissory note that references all of the lenders to the transaction with each independently disbursing loan proceeds to the borrower. However, the most common form of participation loan involves one of the lenders serving as a “lead lender” or “agent” for the group. In this case, the borrower signs the note to the order of the lead lender, solely. The lead lender then disburses all loan proceeds and the borrower makes payments of principal and/or interest solely to the lead lender. The other “participating lenders” usually sign a “participation agreement” that outlines their agreement to fund a portion of the loan issued by the lead lender, their respective rights to loan proceeds, and the obligations of all parties to the transaction. The lead lender and all of the participating lenders generally sign this agreement. It is important to note that the disbursement of funds to the lead lender or agent to fund loans to third parties by one or more participating lenders to the lead lender or agent does not constitute an eligible Qualified Activity.

A participation loan is treated as any other loan under the BEA Program. As such, it may qualify as either a CDFI Support Activity or a Distressed Community Financing Activity. In order for a participation loan to be considered a CDFI Support Activity, the borrower must be a CDFI and the monies drawn must be used to support the CDFI’s activities. If the CDFI Partner is participating in, or otherwise facilitating, the loan transaction -- but is not the actual borrower -- the transaction will not be considered a CDFI Support Activity. In order for a participation loan to be considered a Distressed Community Financing Activity, the borrower or activity financed must be located within or integrally involved in a designated Distressed Community.

As with other loans, in order for a participation loan to be a Qualified Activity under the BEA Program, the loan must be closed and an initial disbursement made during the applicable Assessment Period. Thus, all parties to the transaction must sign and execute the loan documents within the Assessment Period specified in the applicable Notice of Funds Availability. If the transaction involves a participation agreement between two or more lenders, such agreement may be signed prior to or during the Assessment Period provided that the note or loan agreement is signed within the Assessment Period. A BEA Program applicant will not receive a BEA Program award for a participation loan unless it is specifically named as a lender or party to the original transaction in either the note or the participation agreement. Accordingly, a BEA Program applicant will not receive credit for purchasing a participation in a loan after the loan’s origination if the applicant was not part of the original participation agreement.

In some cases, participation agreements between lenders may be in effect for multiple years, involve multiple loan agreements or notes, or involve multiyear disbursements on a single loan. While a participation agreement among lenders may be executed prior to an applicable Assessment Period, a BEA Program applicant shall receive an award only for a loan funding a particular Qualified Activity that is closed during the Assessment Period. Thus, a transaction involving a disbursement on a loan closed prior to the beginning of or after the end of the applicable Assessment Period is ineligible for a BEA Program award.

In some cases, a group of lenders may choose to renew or extend a participation loan the term of which is expected to expire during an applicable Assessment Period. As is the case with all renewed loans under the BEA Program, in the case of a loan that matures, is fully paid and is then renewed during the Assessment Period, the applicant will be ineligible to receive the full value of its share of the principal amount of the renewed participation loan. However, in the case of a participation loan

that is not set to expire during the Assessment Period but is refinanced, the BEA Program applicant will be eligible to receive only the value of its share of any increase in the principal amount of the refinanced loan.

Renewals: Loans and Deposits that are renewed during the Baseline Period or the Assessment Period are not eligible as a Qualified Activity.

Refinancings: Refinancing of loans (including fixed rate and adjustable rate mortgages) may be valued only at the amount of increase to the principal amount of the loan (i.e., the new credit available). For example, if an Applicant originally financed a loan for \$100,000 and the borrower subsequently wanted to refinance the loan and increase the amount borrowed to \$125,000, the Applicant can only claim an increase in the principal amount (\$25,000) for the purpose of receiving an award.

Technical Assistance: Technical assistance provided by an Applicant to a CDFI must be reported based on the administrative cost of providing the services. For staff time, report the number of hours contributed times the hourly salary of the staff member. For other administrative costs (such as printing costs for informational materials), report the actual cost. An Applicant should submit an itemized list of costs that it is seeking to be considered as a Qualified Activity. In reporting the cost of technical assistance activities, the Applicant should certify that the reported items are an accurate reflection of the actual costs incurred in delivering the service.

Technical Assistance or IDA Match Contributions: An Applicant shall report any financial literacy training or other types of technical assistance provided to ETA or IDA holders under the Community Services category. An Applicant should also report funds provided to match IDAs, either directly or through a non-profit entity, under Community Services.

Technical Assistance to First Account holders: Applicants seeking a BEA Program award for providing financial literacy classes or one-on-one technical assistance to First Accounts holders must submit documentation of the costs of providing such services and report such activities as Community Service Activities.