

**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND**  
**Community Development Financial Institutions Program**  
**Policy Guidance on the Treatment of General Partners**  
**and Other Comparable Entities Seeking CDFI Certification**  
*(Issued January 2001)*

The purpose of this document is to clarify the policy of the Community Development Financial Institutions Fund (the Fund) with respect to its treatment of General Partners, Managing Partners, Managing Members and other comparable entities seeking Community Development Financial Institution (“CDFI”) certification. Capitalized terms not defined in this document are defined in the Fund’s Glossary of Terms.

**Background:**

The Fund has received applications from entities seeking to capitalize community development venture capital funds and/or be certified as CDFIs. These applications have been submitted by partnerships, limited partnerships and limited liability companies (hereinafter referred to as “Partnerships”) and by the general partners and managing members (hereinafter referred to as “General Partners”) of those Partnerships. In said applications, General Partners have taken the form of non-profit or for-profit corporations. While General Partners have been typically responsible for staffing and managing the Partnerships, including making underwriting and investment decisions on behalf of the Partnerships, the resultant community development investments are the assets of the Partnerships and are not reflected on the balance sheet of the General Partner. Some General Partners have invested their own assets and hold a majority interest in Partnerships. In addition, most such General Partners are responsible for organizing, raising capital for and creating the Partnerships. Due to the management and fiscal control the General Partners have, vis-à-vis the Partnerships, the Fund generally has determined that these are Affiliate relationships.

This document clarifies the Fund’s policy regarding how such General Partners may meet the “financing entity test” and be certified as CDFIs.

**Financing Entity Test:**

The CDFI Program regulations and certification/funding application describe how an entity may meet certification and eligibility requirements. Among the certification requirements is the requirement that the entity be a financing entity, meaning that its predominant business activity must be the provision of financing, as further described in the regulations. In general, the following are attributes required for an entity to be considered a financing entity or for an activity to be considered a financing activity:

1. The entity must possess control over and exhibit the capacity to make financing decisions;
2. The entity must bear the credit risk associated with its financing. Specifically, it must be subject to the risk that the financing capital (including principal and/or interest) will not be repaid; and
3. The entity must predominantly disburse its own assets in the form of loans or investments and such loans receivable or investments must be reflected on its balance sheet through arms-length transactions (e.g., not financing its Affiliates).

Based on a review of the operations of a number of community development venture capital General Partners and a public policy goal of supporting and promoting community development venture capital funds, as of the date of this document, the Fund will consider General Partners to have sufficient attributes of financing to meet the financing entity test if the following requirements are met:

- A. The General Partner's sole activity is to manage Partnership(s) and those Partnership(s) is/are certified by the CDFI Fund as CDFI(s); OR
- B.
  - 1. The General Partner engages in an underwriting process and makes financial decisions related to its Partnership(s) investments; and
  - 2. The General Partner contributes greater than 50% of the aggregate total investment in the Partnership(s) and by virtue of that contribution has more than 50% of the risk associated with the activities of the Partnership(s), including financing activities.

**Certification:**

Under the following conditions, the Fund may determine that a community development venture capital General Partner entity may be certified as a CDFI:

- 1. The legal entity (a) is a General Partner for a Partnership(s) that is a certified CDFI(s) and (b) has as its sole business to the management of the Partnership(s). A General Partner shall be determined to have a sole business of managing a Partnership(s) if over 85% of its staff time is engaged in managing such Partnership(s). All Partnerships managed by the General Partner must be certified at the time of the General Partner's application for certification. Any new Partnership formed after the date of the General Partner's certification must submit a certification application to the Fund evidencing that it meets all six certification requirements within three months of its formation. It is the General Partner's responsibility to ensure that said new Partnership remains in compliance with this 3-month provision; and
- 2. The entity meets all other certification requirements;

OR

- 1. The legal entity is a General Partner for a Partnership(s) and underwrites the investments and makes the final investment decisions of a Partnership(s);
- 2. The entity contributes more than 50% of the aggregate total investment in the Partnership(s);
- 3. The entity controls the activities of the Partnership(s);
- 4. The Partnership(s) individually meet(s) the financing entity test;
- 5. The entity meets all other certification requirements; and
- 6. The entity and the Partnership(s) collectively meet all of the certification tests.

This policy is intended to be narrowly targeted to the review of CDFI certification applications submitted by community development venture capital General Partners and does not provide a precedent for certifying as CDFIs other entities that are not themselves financing entities but have subsidiaries that are financing entities.