

An Overview of the Emergency Capital Investment Program (ECIP)

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Emergency Capital Investment Program



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Topics

- ❖ Background
- ❖ Overview of Updates
- ❖ Eligibility Requirements
- ❖ Investment Structure and Terms
- ❖ Qualified and Deep Impact Lending
- ❖ Application Process
- ❖ Investment Underwriting
- ❖ Compliance

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Emergency Capital Investment Program

Background

- Consolidated Appropriations Act, 2021 provided \$9 billion for the Emergency Capital Investment Program (ECIP)
 - Provides direct investments into Community Development Financial Institution (CDFI) and Minority Depository Institution (MDI) banks, credit unions and holding companies.
 - The investments are to support the efforts of CDFIs and MDIs to provide loans, grants, and forbearance to low and moderate income (LMI) and minority individuals and communities.
 - The ECIP design places an emphasis on communities disproportionately impacted by the COVID-19 pandemic.
- The Act also provides \$3 billion in capital for the development of CDFI Fund Programs (RRP and MLP)



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Background – Cont'd

ECIP Timeline

December 27, 2020: Treasury is authorized to establish ECIP by the Consolidated Appropriations Act of 2021.

March 9, 2021: Treasury published an interim final rule, with a 30-day comment period, on executive compensation, buybacks and dividends.

March-April 2021: Treasury engages with CDFIs and MDIs to solicit input.

April 21, 2021: Based on stakeholder input, Treasury extends application deadline to July 6.

August 12, 2021: Treasury publishes ECIP program update and extends application deadline to **September 1, 2021**.

March 4, 2021: Treasury issues initial guidance and application with May 7 application deadline.

March 30, 2021: Treasury publishes ECIP FAQs.

April 8, 2021: Comment period for interim final rule closes.

July 1, 2021: Treasury issues notice of forthcoming guidance and 14-day application deadline extension.

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Overview of Updates

Application

Increased clarity regarding lending plan data requirements

FAQs

Questions on eligibility, application process, investment underwriting

Term Sheets

Maturity option and lower rate for subordinated debt, fixed rate for debt and preferred stock after 10 years

Rate Reduction Incentive Guidelines

Expands rate reduction credit to include public welfare investments

Application and Lending Plan Evaluation Form

Descriptions of capacity and community responsiveness evaluation criteria

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Eligibility Requirements

- An applicant must be a Community Development Financial Institution (CDFI); or Minority Depository Institution (MDI);

AND

- Bank Holding Company (BHC); Savings and Loan Holding Company (SLHC); Insured Depository Institution not controlled by a BHC or SLHC that is eligible; or Federally Insured Credit Union.

Updates:

- CDFIs that applied for certification by March 31, 2021, are eligible to apply.
- The holding company of an MDI may apply if it meets the eligibility criteria (e.g., not in troubled condition or subject to a disqualifying enforcement action).

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Eligibility – Cont'd

The following are *ineligible* to participate in the program:

- Institutions that are designated in Troubled Condition by a Federal Banking Agency or National Credit Union Administration (NCUA);
- Institutions subject to a formal enforcement action with its primary Federal regulator that addresses unsafe or unsound lending practices.
- Institutions that lose CDFI certification status prior to investment closing.
- Community development loan funds and other businesses or individuals that are not depository financial institutions or depository institution holding companies.



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Investment Structure

Investment limits

- Amount per issuer cannot exceed \$250 million and is limited to:
 - 7.5% of total assets for institutions with > \$2 billion in total assets
 - 15% of total assets for institutions with \$500 million to \$2 billion
 - 22.5% of total assets for institutions with < \$500 million in assets

Form of Investment

- Treasury will purchase **senior perpetual preferred stock**, or if an eligible institution cannot feasibly issue preferred stock (e.g., Subchapter S corporations, mutuals and credit unions), Treasury will purchase **subordinated debt**.
- Institutions will execute a purchase agreement, letter agreement, investment instrument, and other closing documentation, as applicable, with Treasury. Institutions that change corporate form may exchange the investment type upon executing new agreements.

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Investment Terms

- **Term Sheets for ECIP instruments:**
 - Senior Preferred Stock Term Sheet
 - Subordinated Debt Term Sheet (Mutuals and S Corps)
 - Credit Union Subordinated Debt Term Sheet
- **Key Terms (All ECIP instruments):**
 - Payment deferral is available in any quarter where the institution fails to be “well capitalized,” fails to achieve positive net income, or gives notice that payment would be detrimental to the financial health of the institution. Payments may resume the next pay period.
 - The adjusted dividend / interest rate in years 3-10 will be based on Rate Reduction Incentive Guidelines (available on ECIP website).

Preferred Stock

Investment Terms

- Senior, non-cumulative, and perpetual non-voting preferred
- Dividends do not accrue and are not payable for the first 2 years.
 - The dividend rate adjusts for years 3-10 depending on the previous year's level of qualified and deep impact lending, as described in the Rate Reduction Incentive Guidelines.
 - After year 10, the dividend rate will convert to a fixed rate based on the average annual increase in qualified lending over the baseline during years 2 through 10 (an average of 9 years).
- Tier 1 capital treatment. 86 FR 15076 (Mar. 22, 2021).

Subordinated Debt

Investment Terms

- Unsecured debt, with a 15- or 30-year maturity option. All debt from the same issuer must carry the same maturity.
- Maximum interest rate lowered to 2 percent. Interest does not accrue and is not payable for the first 2 years. Unpaid deferred interest is payable at maturity.
 - Interest rate adjusts for years 3-10 depending on the previous year's level of qualified and deep impact lending, as described in the Rate Reduction Incentive Guidelines.
 - After year 10, the interest rate will convert to a fixed rate based on the average annual increase in qualified lending over the baseline during years 2 through 10 (an average of 9 years).
- Tier 2 capital treatment. 86 FR 15076 (Mar. 22, 2021).



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Investment Transfers

Treasury Transfer Restrictions

- Issuer shall have a right of first refusal to buy back the investment under terms that do not exceed a value determined by an independent third party (conditional upon regulator approval);
- Treasury will not sell more than 25% (i) of its investment (in a subordinated debt issuer), or (ii) of the equity of an issuer of preferred stock, to a single third party without the issuer's consent;
- With the permission of the issuer, the Treasury may transfer or sell the investment to a mission aligned nonprofit affiliate of an applicant that is an insured community development financial institution ("Eligible Nonprofit"); and
- Treasury will not sell the investment (other than to an Eligible Nonprofit) before the tenth anniversary of the Investment Date without issuer's consent, which is not to be unreasonably withheld. In addition, Treasury would commit to an 18-month advance notice of intent to transfer the investment other than to an Eligible Nonprofit.

Issuer Transfer Restrictions

- The issuer may merge or sell all, or substantially all, of its assets, provided that the right of the investment interests and obligations are assumed and equivalent investment interests are issued by the successor.
- The successor must also meet either the certified CDFI or MDI criteria to continue to participate in the ECIP unless prior Treasury approval is obtained.



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Qualified Lending

Target Community	Qualified Lending	Deep Impact Lending
People	LMI borrowers Other Targeted Population borrowers	Low Income Borrowers Mortgage Lending to Other Targeted Populations
Places	Rural Communities Urban Low-Income Communities CDFI Investment Areas Minority Communities	Persistent Poverty Counties Indian Reservation Hawaiian Homelands U.S. Territories
Businesses	Small Business or Farms	Small Businesses with revenues that do not exceed \$100,000 Businesses majority owned by low-income individuals or Other Targeted Populations
Projects	Affordable Housing Loan purchases from non-depository CDFIs Public Welfare Investments that primarily benefit LMI individuals and communities	Deeply Affordable Housing Loan purchases from non-depository non-profit CDFIs Public Welfare Investments that primarily benefit low-income individuals or Other Targeted Populations



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Rate Reductions

- To set payment rates after year 2, Treasury will compare increases in qualified lending and deep impact lending to the amount of qualified lending in the 12 months ending September 30, 2020.
- 2% maximum dividend / interest rates but with reductions can go as low as:
 - 1.25% if the institution increases its qualified lending by 200% to 400% of the amount of Treasury investment
 - 0.5% if the institution increases its qualified lending by more than 400% of the amount of Treasury investment
- Deep Impact Lending will receive double credit towards an institution's dividend or interest rate reduction.



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Application Process

ECIP Application components consist of the following:

- ECIP Application and Emergency Investment Lending Plan
- Audited financials and other supporting documentation

Complete Applications must be certified and submitted to Treasury's online portal on the ECIP Website

- Applicants who submitted an application prior to August 13, 2021 will be given an opportunity to amend their applications before the close of the application period.
- Applications are due by September 1, 2021.

Lending Plan

The Emergency Investment Lending Plan must include the following:

- Demonstrated 2-year track record of at least 30% of lending directly to LMI borrowers, minority borrowers or borrowers that create direct benefits for LMI borrowers. (Question 1)
- Business Strategy and Operating Goals that demonstrate an understanding of the target market and is tailored to meet the needs of that market, especially those needs that have arisen as a result of COVID. (Question 2)
- Growth Strategy for:
 - All qualified lending (Question 3(a))
 - Applicants must provide projections of aggregate growth in each county in their target market(s).
 - Minority Borrowers, LMI minority communities and historically disadvantaged communities (Question 3b)
- Community Outreach and Communication Plan



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Investment Underwriting

Individual review of each application will consider:

- Financial condition and ability to pay dividends or interests
- Capacity to execute on the lending plan
- Responsiveness to community needs, especially those needs that have arisen as a result of COVID
- Financial condition and capacity may be used to adjust individual investment amounts. In the event of program oversubscription, responsiveness to community needs may also be used.

Collective review of all applications will consider:

- Adequate geographic coverage
- Adequate demographic coverage
- Compliance with statutory set-asides based on asset size



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Compliance

Interim Final Rule on Executive Compensation, Share Buybacks, and Dividends:

- The requirements are designed to generally align with requirements issued by the primary federal supervisory regulator.
- Institutions must adopt and publish a policy designed to limit excessive and luxury expenditures.
- Ability to pay dividends and interest is dependent on payment of obligations to Treasury.
- Applicable during the earlier of the end of ECIP investment period, until Treasury no longer holds an investment, or 10 years

Reporting Requirements:

- Periodic reporting of Qualified Lending and Deep Impact Lending
- Requirements will be issued through notice and comment process

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Resources & Contact

- Submit Questions about ECIP to ECIPInquiries@treasury.gov
- ECIP Webpage: <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program>
- **REMINDER:** The ECIP application window closes on September 1, 2021

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