RFP OVERVIEW AND SUMMARY

Four philanthropic institutions[1] have committed resources to launch the Community Investment Guarantee Facility (CIGF or Facility) to accelerate community investment in the United States. CIGF will aggregate these unfunded guarantee commitments and provide targeted guarantees to community lenders, investors and intermediaries investing, initially, in three key areas of community development: affordable housing, small business and climate. It is anticipated that CIGF will enable the field to extend impact by making more and new types of transactions feasible and that it will attract additional guarantee commitments in the future as impact is demonstrated.

CIGF is a new piece of impact investing infrastructure intended to address the following problems:

- Increase amount and efficiency of charitable community development investment by centralizing a source of credit enhancement – making it easier for intermediaries to access new capital sources, negotiate more advantageous terms and/or take on additional risk,
- Reduce complexity for Guarantors by building intermediary capacity to deploy guarantees and manage them over time,
- Accelerate charitable community investment without requiring upfront cash commitments by activating foundation balance sheets, and
- Mitigate risk by allowing for diversified exposure across various sectors, geographies and asset classes

The Facility is planned to launch in Q2 2019 and will be undergoing final design and selection of the Program Manager in Q1 2019. Current planning assumptions are included in this RFP are subject to change through this process.

RFP RESPONSES

As one of the sponsoring philanthropic foundations of the Community Investment Guarantee Facility, The Kresge Foundation is requesting proposals for a Program Manager that will also serve as a Servicer for the Facility. The Program Manager will operationalize CIGF with the support of the initial Guarantors. More specific tasks are included below, but at a high level the Program Manager will identify, vet and allocate guarantee "allocations" to qualifying partners; develop financial and impact related reporting templates for the Facility; actively manage the Facility's portfolio from a risk and impact perspective; oversee communications to the Guarantors and the field more broadly; and attract additional guarantors to the Facility; among other critical tasks. Final selection of the Program Manager will be made by the CIGF Governing Committee comprised of Guarantors and external advisors.

Please indicate your intent to respond by February 8, 2019
Full RFP Response Deadline: February 22, 2019

Please submit all materials or clarifying questions to Julie Burlingame: Jlburlingame@kresge.org

[1]Dignity Health, Gary Community Investments, Kresge Foundation and Rockefeller Foundation

EVALUATION AND SELECTION

Proposals will be evaluated based on:

- Ability to "house" CIGF as part of the charitable program of an existing Section 501(c)(3) public charity
- Willingness to work closely with Governing Committee to develop and implement operating principles and to address issues, over time
- Willingness to work with the Governing Committee to share lessons with the field
- Ability to position CIGF to accelerate community impact, fill capital gaps and increase efficiency in financing across multiple sectors
- Willingness to support CIGF in recruiting new Guarantors and relevant fundraising experience
- Experience, track record and staffing capacity to underwrite a range of intermediaries and procure specialized sector expertise, as necessary
- Experience in building a diversified investment portfolio and originating opportunities that balance risk across different sectors, terms, organizations and achieves the social impact desired
- Experience mitigating risk through active portfolio management
- Experience developing and reporting financial and impact performance of similar vehicles
- Alignment with the CIGF mission
- Cost-effectiveness

OVERALL CIGF DESIGN AND STRUCTURING PRINCIPLES

As CIGF is a new effort, operating principles for the Facility are in development. The information provided below is background to set the context for the respondents but subject to further refinement.

- CIGF will make guarantees across three sectors (jobs/small business, housing, environment/climate) to support projects and activities that further charitable purposes
- CIGF will make enterprise-level, pool-level, fund-level and other forms of guarantees to support the desired impact (with terms up to 10 to 15+ years)
- Risk sharing (in most cases) will address one or more of the following:
  - Liquidity risk – a standby commitment to address potential funding maturity mismatches in a capital stack (e.g. bridge funding needs under a stress scenario)
  - Credit risk – support of a capital stack through credit enhancement with a limited guarantee (e.g. cover a portion of losses under a stress scenario)
  - Collateral substitution – support collateral pledging requirements (e.g. with FHLB or similar uses)
  - Equity substitution / enhancement – support equity requirements (e.g. for a CDFI or similar uses)
- Some level of guarantee fee(s) will charged to the entities utilizing the guarantees (i.e. CDFIs) and some level of guarantee fee(s) will be provided to the foundations as Guarantor providers
- The guarantees committed are unfunded (funds will move when losses are realized)

For planning purposes, the following can be assumed:

- Services to be provided for a period of three (3) years with potential renewal beyond initial term
- Facility will launch in 2019 with, initially, $17 million in capacity from four philanthropic foundation sources and grow as new Guarantors can be secured.

- Guarantees expected to be issued to users in $3 million to $5 million increments, with $1 million being the minimum.
- It is anticipated that there is a roughly proportional level of support provided to each of the three sectors: small business, climate / environment and affordable housing (multifamily or single-family).
- CIGF already has sufficient term sheets in hand from which to select the first tranche of organizations that will benefit from a guarantee "allocation." Therefore, no immediate origination capacity is needed for the first tranche (however additional origination will be required as new guarantors join CIGF).
- As the Facility grows, it is the expectation that guarantee fees will ultimately cover the operating costs of the Program Manager. In the start-up phase, grant support has been secured to pay for the costs.

THE CIGF ENTITY

It is expected that the CIGF will initially be housed within an existing Section 501(c)(3) public charity. In the future, it may be spun-off as a standalone tax-exempt charitable entity. Further, respondents will not be subject to any counterparty exposure to the CIGF entity (e.g. if cashflow in the CIGF entity is insufficient to pay the third-party fees associated with these services - i.e. tax, legal, etc. - these will be instead provided by one or more than one participating foundations on its behalf).

In addition to servicing a portfolio of guarantees, the selected entity will take responsibility for overall "program administration" of CIGF which will include:

- Governance and management with foundation "sponsors"
- Develop eligible guidelines to be agreed upon by participating Foundations
- Develop, monitor and manage to portfolio targets (e.g risk / sectoral / geographical / maturity / etc.)
- Engagement of professional advisors (legal, tax, etc.) as required
- Oversight of market making and technical assistance
- Oversight of guarantee administration including certifying a guarantee's charitability according to guidelines to be established
- Relationship management with community "users" and foundation "sources"
- Rigorously evaluating impact including assessment of the impact of CIGF on local community investment ecosystems and on the impact investing field as a whole.

RFP RESPONSE QUESTIONS

1. **Name of public charity that will "house" CIGF. Please submit organizational documents.**

2. **Please speak to how you will work with the CIGF Governing Committee during the development and launch of the Facility. Who is the key individual(s) leading the engagement for your firm?**

3. **How would you approach bringing new Guarantors into the facility?**

4. **What field level impact do you believe the Facility could have, in time, to accelerate the rate of investment in communites?**

5. **Please speak to experience and staffing capacity to underwrite a range of intermediaries and procuring specialized sector expertise, as necessary. Tasks include:**

   - Development and agreement of terms
   - Full organizational underwriting of the user of the guarantee
   - Full credit risk exposure underwriting, including assessment of underlying assets and any loss sharing the guarantee is supporting, and development of a base case expectation of calls against the guarantee and various stress scenarios
   - Full program impact and guarantee leverage assessment
   - Formal analysis of portfolio impact of proposed guarantee, presentation of guarantee recommendations and review with CIGF Governance Committee, along with summary presentation of those guarantee proposals received and not recommended
   - Additional ad-hoc structuring activities with candidate guarantee user to get to "yes"
   - Oversee closing and legal documentation process to issue the guarantee (working with CIGF's external counsel, and with the guarantee "user" and their counsel)

6. **Please speak to your experience and approach to building a diversified portfolio that balances risk across different sectors, terms, organizations and achieves the social impact desired. Task to include:**

   - Periodic review and update to set of eligible guidelines of the Facility
   - Periodic review and update to set of portfolio targets provided by the Facility
   - Periodic development of "model uses" that can be tailored for future guarantee originations

7. **Please speak to your organization's experience managing a diverse portfolio of assets. Please include the names and backgrounds of the individuals that will lead this engagement and any other key staff that have managed complex multi sector funds in the past.**

8. **Please provide examples of your organization's reporting capacity and use of risk management tools, including development of forecasting tools for risk. Responsibilities in this area are similar to loan servicing and master servicing/investor reporting functions. The Program Manager will also process periodic guarantee calls as losses are realized and funding is required from foundations.**

9. **Please provide an estimated budget – estimating both one-time and ongoing costs – for undertaking the role of Program Manager.**

COMMUNITY INVESTMENT GUARANTEE FACILITY (CIGF)

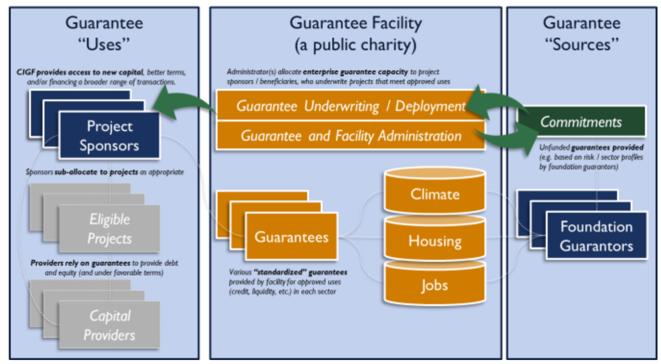
ADDITIONAL BACKGROUND

ADDITIONAL BACKGROUND

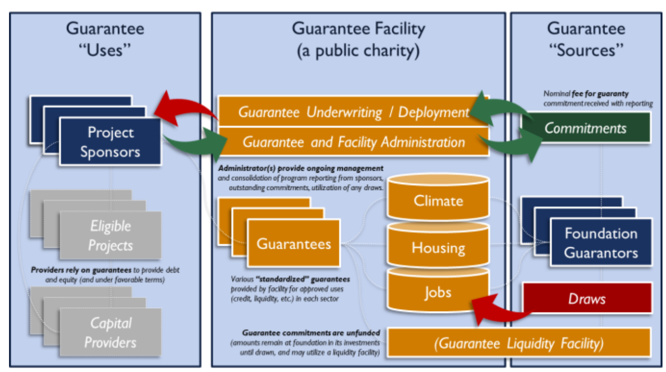
CIGF is an outgrowth of research completed by the Global Impact Investors Network (GIIN) and follow on sector convenings and workgroups convened by the Kresge Foundation.

Current structuring principles for the Facility are provided as follows as background and to set the context for the respondents.

- The Facility will **receive guarantee commitments** from foundations (“**sources**”), for fixed maximum amounts and fixed terms and are unfunded unless there is a draw event (Contingent Assets)



- The Facility, via the Manager, will underwrite and **deploy guarantee commitments** for community lending and investment purposes (“**uses**”), fixed maximum amounts and fixed terms, unfunded (Contingent Liabilities)
- A portion or all of a particular guarantee commitment issued by the Facility may become **effective** with the user when ascribed to an eligible use (e.g. qualifying loan or investment is made), the Facility will make corresponding portions of received guarantee commitments effective with its sources
- A portion or all of a particular guarantee commitment issued by the Facility may be **released** over time with certain trigger events (e.g. unused capacity at the end of an origination period, payoff of eligible loan, final settlement at end of guarantee period, etc.), and the Facility may **redeploy** this capacity



- A portion or all of a particular guarantee commitment issued by the Facility may be **funded or drawn** over time with certain trigger events (e.g. based on the type of guarantee and loss sharing, etc.), and the Facility will receive funds from sources (e.g. a liquidity facility) and pass through to users
- The Facility will remain **balanced** – i.e. at no point in time will the Facility have more guarantee commitments deployed to uses than it has capacity from sources, including term / duration, commitments effective will balance, funds will be pass-through, etc.

SUMMARY OF GUARANTEE USES

Current planning assumptions around the types of “uses” that may be expected from the guarantees issued by the Facility are as follows:

- User’s **capital sources** – leveraged or direct
  - **Leveraged capital** (e.g. through CDFI or intermediary) for re-lending – likely most of the use scenarios, and with various deployment alternatives, noting banks comprise the vast majority of capital deployed for relending.

  - **Direct lending** (contrast to leveraged capital) – likely only for mission aligned financial institutions or larger CDFIs with excess liquidity and strong balance sheet.
- User's **role as sponsor** of the program receiving the guarantee capacity – intermediary or direct
  - **Direct recipient** (e.g. where the guarantee commitment will be used to further that organization's direct charitable community lending and investment activities – such as making small business loans to eligible owners, etc.
  - **Intermediary** (e.g. where the guarantee commitment will be part of a capital stack that in turn is redeployed out to other organizations such as CDFIs to support their charitable community lending and investment activities
- **Structure of guarantee** use – project level, pool level, enterprise level, other
  - **Project-level risk sharing (in pool).** Guarantee ascribed for use at a specific loan level or investment, may be called upon based on losses of that specific loan or investment (example DHM Equity Protection)
  - **Pool-level risk sharing.** Guarantee applied against a pool of loans or investments, may be typically called upon with final disposition of the pool, benefits from reserves, etc. (Example DHM Credit Enhancement)
  - **Enterprise-level equity / risk sharing.** Guarantee applied enterprise level (example IPC)
  - **Other:** exploring other uses such as collateral substitution, liquidity support, etc.
- Leveraged capital (e.g. through CDFI or intermediary) for re-lending – likely most of the use scenarios, and with the following key deployment alternatives:
  - **Project-level risk sharing (in pool).** Example: Guarantee applied to second-loss position on an affordable multifamily project where equity is being provided by the CDFI sponsor to the non-profit owner / operator. Capital provided by banks through sponsor (intermediary) for re-lending.
  - **Pool-level risk sharing.** Example: Guarantee applied against a pool of single-family second mortgages in third-loss position behind reserves and grant funds. As with DHM, capital provided by banks in standalone fund (subsidiary of non-profit CDFI).
  - **Enterprise-level equity / risk sharing.** Example: Guarantee applied as first loss against an enterprise-level loan made to a CDFI small business lender. Capital provided by banks through the sponsor (intermediary) for re-lending.
  - **Direct lending (contrast to leveraged capital)** – likely only for mission aligned financial institutions or larger CDFIs with excess liquidity and strong balance sheet
  - **Project-level risk sharing (in pool).** Example: Guarantee applied to first-loss position on small-dollar single-family second mortgages for targeted lending program to address deferred maintenance, to offset bank lending criteria exceptions.

Community Investment Guarantee Facility (CIGF)

Accelerating Investment in Small Businesses

Community-oriented lenders and CDFIs support employment and income creation in low income communities by making loans to new and growing small businesses and microenterprises. Revenues earned by these enterprises are essential to the livelihood and future prosperity of many. These businesses -- like restaurants, small manufacturing, retail, construction, and food production -- often struggle to find capital for operations, inventory and expansion. The small business sector includes high numbers of women and people of color but across the board, owners often have limited credit histories and/or the businesses do not have long track records. As bank lending standards have tightened so have the sources of capital for these business owners resulting in some owners taking out high cost or predatory loans to meet their needs for capital.

Increased capital access and economic development in these communities creates higher levels of employment, and positively affects the attendant social determinants (health, education, crime, youth engagement), while addressing economic disparities. The impact of small business growth since the great recession is significant -- since 2014, small businesses have created 2 out of 3 net new jobs. Growth and success in this sector requires community-oriented lenders who are experienced and capitalized to take appropriate risks with new or fragile Borrowers.

An unfunded guarantee from the Community Investment Guarantee Facility (CIGF) can support the sector by providing credit support for a pool of small business loans originated by a lender and can serve as a partial offset to future credit losses. Organizations that have assisted in the development of CIGF and believe the Facility can help them achieve additional investment activity in the small business sector include: *Meda* (a CDFI minority-owned local small business lender), *Michigan Economic Development Corporation* (a state economic development finance agency), *Community Reinvestment Fund* (a national small business CDFI lender) and, *Opportunity Fund* (a regional CDFI micro-lender), among others.

Problem Statement

Currently many small business lenders and microlenders leverage their net assets to secure capital to relend. While additional sources of credit enhancement can also be leveraged depending on the types of loans made (such as with SBA guarantees, etc.), these community lenders are required to maintain high levels of loss reserves and, when compounded with tighter credit risk profiles of the conventional lending programs, these together impair their ability to support additional lending in to the more underserved (and higher risk) areas where greater impact in the community is needed.

> ***"We were virtually locked out of the lending marketplace… Meda's support has been crucial in taking our business to the next level."***
> -- James Garrett, Jr. co-founder of the minority-owned full-service architecture firm 4RM+ULA

This has hampered the growth and impact of diverse, mission-driven lenders. An unfunded guarantee from the from the Community Investment Guarantee Facility (CIGF) would shift this paradigm.

CIGF Solution and Results

A summary of the results from the representative guarantee from the from the Community Investment Guarantee Facility (CIGF) include:

- **Growth and Impact.** The guarantee provides the support required to access additional amounts of low-cost capital by CDFIs, lenders and intermediaries, fueling their growth and ability to take on small business and microenterprise lending in the more underserved (and higher risk) areas where greater impact in the community is needed.
- **Leverage.** It is expected for every $1mm of guarantee, $5mm will be leveraged in terms of capital invested in communities, with additional leverage likely with the “recycling” of this guarantee capacity as shorter-term loans payoff during the deployment period.
- **Deployment.** This guarantee would be deployed in $3mm to $5mm increments directly to CDFIs and lenders or allocated to an intermediary (e.g. regional economic development agency) to be sub-allocated to local CDFIs and lenders.
- **Efficiency.** By creating a new component of community investment infrastructure with the CIGF, it will expedite lenders ability to find the credit support needed to continue to grow and serve their communities. An experienced guarantee program administrator, reporting to the CIGF Board, will monitor the portfolio performance across participating lenders and adjust exposure as necessary.

STRUCTURE AND TERMS

A summary of the structure, terms and expected draws of this representative guarantee include from the from the Community Investment Guarantee Facility (CIGF) include:

- **Structure and Terms.** This representative guarantee has a 10-year term including a 5-year origination period. The guarantee is in a second-loss position. It is expected that each lender will establish a loan-loss reserve for each loan made, which acts as the first loss. The CIGF guarantee covers a portion of the loss after the liquidation of the borrower collateral, and application of any other credit enhancements available (e.g. through the SBA guarantee program).
- **Expected Draws on the Guarantees.** It is anticipated under a base case set of assumptions that sponsors will draw approximately 25% of the guarantee capacity deployed over the 10-year term. These draws are anticipated to be distributed primarily toward the middle and later periods of the term of the guarantee, corresponding to an assumed loss rate on the underlying small business loans and microloans.

ABOUT THE COMMUNITY INVESTMENT GUARANTEE FACILITY (CIGF)

There is a powerful, market making opportunity for the leaders of philanthropy to unlock a significant amount of new investment for community development within the U.S. – without requiring additional current endowment liquidity or charitable resources. The Community Investment Guarantee Facility (CIGF) will aggregate unfunded guarantee commitments from foundations and other impact investors and make that credit enhancement available to community lenders and intermediaries investing, initially, in three key areas of community development: affordable housing, small business and climate.

The Community Investment Guarantee Facility (CIGF) will allocate guarantee capacity to these community lenders and intermediaries to accelerate investment, improve balance sheet capacity and facilitate access to capital sources.

With this innovative, new piece of community development infrastructure, we will leverage the financial strengths of foundation partners to achieve greater impact in communities today.