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The Grant Application Primer:

Basic steps for novice grant writers

By Joyce Luhrs

The process of grant writing is never a simple one. Unfortunately, with so many details to worry about, it is often the most basic standards that get overlooked. Author Joyce Luhrs is well acquainted with the ways in which grant writers can sabotage their own efforts by failing to mind the mundane details of their proposals. In this insightful article, Luhrs offers a series of suggestions aimed at helping grant writers produce a document that is properly constructed, thus giving it the best chance at being read in its entirety, with a stronger possibility to garner funding. This article is reprinted with permission from CharityChannel.com and Joyce Luhrs. To receive the entire issue by e-mail each week, visit <http://charitychannel.com/enewsletters> and use the subscription form. To seek permission for reprints, visit <http://charitychannel.com/enewsletters/reprints>. For more information, contact CharityChannel at <http://charitychannel.com/rapid-reply>. Copyright © 2005 Joyce Luhrs. All rights reserved.

From our earliest memories in school, we heard “read the directions first!” Every time I start reading an application, including a grant-related one, these words ring again and again. Whether applying for a foundation, corporate, government, or community grant award as a nonprofit organization, an association with a different tax status, an individual, or a business, I always keep these rules and application “how-tos” in mind.

Application availability

Applications may be gotten with a request to the funder with a phone call, a written postal mail request, or by an e-mail. These days, more and more funders are posting their applications on the Internet, and they may be downloaded in various formats directly to an applicant’s computer. Do not

open the downloaded document until it has been scanned and found virus free.

Review carefully

Peruse the application first to get an overview of its sections, the information required, points of contact, among others. Then, go back and read the entire application carefully. Check that all pages have been included in the application. On occasion, application booklets may be missing a few pages or printed incorrectly. As more funders opt to place their guidelines on their web sites, check that the information is current.

Determine eligibility

Before responding to the request for proposal, an applicant needs to make sure it meets the eligibility requirements. Some common requirements are stipulated according to type of organization — non-profit, Internal Revenue

Service designation as a not-for-profit 501(c)(3) organization, community-based nonprofit groups, government agency, local educational agency, private school, commercial enterprises, higher education institutions, consortia, partners, an individual, among others.

Other eligibility pointers include the following: the purpose of the grant, stipulations about

*Always read the fine print
and watch for asterisks...*

how grant funds may be used, targeting organizations that meet a specific need, identifying groups or individuals that work with a particular niche in the community, matching funds requirements, noting geographical locations, highlighting specific qualifications required, and others.

Amount available and number of awards

Look for the minimum and maximum award amounts, the average size of a grant and the number of awards that will be made. Some funders may stipulate distinct award amounts for different purposes.

Remember the appendix

If an appendix is included, do not overlook it. Occasionally, funders, especially government agencies, will insert legislation that provides additional details and insights about what is sought.

Look for the “gotchas”

Some things to watch are: page limits, font size, type of paper used, spacing requirements, conflicting guidelines found in different sections of the RFP, the number of copies to submit, pre-proposal notification, partner requirements, stipulations about attachments, and deadline phrases like “postmarked by” or “due on.”

Always read the fine print and watch for asterisks, as additional information is sometimes noted or found in another part of the application. Are any exceptions or waivers discussed? These may include information about how a document may be submitted, technological glitches, among others.

Develop a checklist

Prepare a list of all information that is requested and check that everything has been completed before the application is submitted.

Make another copy

Accidents happen. On the day the applicant inserts the original version of the forms into the printer, it jams, and the paper pops out torn. Tea or coffee stains on the forms may not reflect well upon the applicant. Either request an extra copy of the application or make another copy to be available if Murphy’s Law should strike.

Provide information requested

Give only what is requested, no more, no less. Answer all questions completely and honestly.

Format

Some funders list very specific guidelines about how an application must be organized. On occasion, funders, especially government agencies, state very clearly in their applications that a proposal will not even be reviewed if those guidelines are not followed.

Be neat

First impressions do matter. The application is often the only thing that a prospective funder has about an organization. Preferably, prepare the application and all attachments on a computer. Although the typewriter has become somewhat of a dinosaur, forms that cannot be scanned may need to be completed using this older technology. If a typewriter is unavailable, hand printing the information neatly with block letters is acceptable, too. Narratives should be typed.

Original signatures

When a signature is required, be very clear about which representative from an organization may sign the document, and notify the individual, who generally is the director, chief executive officer, or the equivalent.

A good idea is to check the director’s schedule to identify time when that person will be in or out of the office. A proposal

writer does not want to find out at the last moment that the only person who can sign off on the application is away.

Write clearly

Like a good book, all points in an application should connect from beginning to end. Sentences and ideas should be clear and concise. Proposal writers should not use slang terms, jargon, or pejorative language that will not only make the reviewer push the application to the bottom of the pile but also leave a lasting, negative impression.

Proofread

Read the entire application and check for spelling and grammatical errors. Line up a couple of people to read first and final drafts of the complete application.

Ask, if unclear

If a guideline is unclear in the application, call the funder's representative listed as a contact. Write down your question(s) before picking up the telephone or sending an e-mail. Program officers are willing to help, but they do not want their time wasted.

Adhere to Deadlines

Deadlines may be posted as rolling, one per year, several times a year, or even every few years. Try to complete everything one to two weeks before the due date. While this may be a dream and an inconceivable reality for some, the current push by government agencies and more and more foundations

and corporations requiring that applications be submitted electronically, means that organizations and individuals are now at the mercy of several entities working properly such as the applicant's computer system and the Internet Service Provider of everyone involved.

Get a receipt

Always request a dated receipt with a postmark for proof of mailing, when an application is sent through the United States Postal Service. If a commercial carrier is used, obtain a dated shipping, label, invoice, or receipt.

Make a copy

Don't be caught off-guard if the application doesn't reach its final destination. Keep copies of the entire application package.

Back-up text

Recreating text is a nightmare! Don't be caught off-guard with a computer crash, the Internet Service Provider going down, a Kernel panic attack, or a nasty virus or worm assault on a computer system.

Joyce Luhrs, president of Luhrs & Associates, has 19 years experience providing marketing, public relations, and management services for businesses, nonprofit organizations, schools, and colleges throughout the country. She is a nationally published author on public relations, marketing, grants, the arts, home-based businesses, women-owned companies, micro-enterprises in Cuba, education, and dance. Luhrs holds a B.A. degree in sociology/anthropology from Oberlin College and a M.A. degree in the social sciences from Columbia University.

An Equity Equivalent Primer:

A capital product for community development

By Laura Sparks

"This special debt investment is a precedent setting community development debenture that will permit 'equity-like' investments in not-for-profit corporations." So said the Comptroller of the Currency, Administrator of the National Banks in an opinion letter dated January, 23, 1997 concerning Citibank's Equity Equivalent investment in National Community Capital Association. With that observation as an appropriate starting point, author, Laura Sparks goes on to clearly and thoroughly explain the EQ2 — the Equity Equivalent. Meant to benefit Community Development Financial Institutions, EQ2s are now being used in many innovative ways by these organizations. This article explores some of these uses while also offering a basic history of the Equity Equivalent. This article was originally published by the Opportunity Finance Network (www.opportunityfinance.net) and is reprinted here with their permission.

The Equity Equivalent, or EQ2, is a capital product for Community Development Financial Institutions (CDFIs) and their investors. It is a financial tool that allows CDFIs to strengthen their capital structures, leverage additional debt capital, and as a result, increase lending and investing in economically disadvantaged communities.

For investors in general, the EQ2 provides a vehicle for facilitating greater impact in economically disadvantaged communities and, for bank investors in particular, the EQ2 provides a mechanism for receiving investment test credit or enhanced lending test credit under the Community Reinvestment Act (CRA). Most EQ2 investments to date have been made by banks, as the favorable CRA treatment is

a primary motivating factor. This technical assistance memo explores the development of the EQ2 in 1996 and the innovative ways that CDFIs and investors have utilized the EQ2.

The memorandum covers the following areas:

- Background/Context for the development of the EQ2 product
- Technical description of the EQ2, including accounting treatment, CRA treatment, other regulatory issues, and common terms, conditions, and covenants
- Outcomes and Benefits of the EQ2
- A guide to help CDFIs attract EQ2 capital

Background/Context for the Development of the EQ2 Product

Community Development Financial Institutions (CDFIs)¹

Community Development Financial Institutions (CDFIs) are financial intermediaries that garner funds from various public and private sources and re-lend or invest these funds in economically disadvantaged people and communities. The CDFI Coalition estimated that in 1999 there were approximately 475 private-sector CDFIs in the United States with approximately \$4.5 billion in assets. CDFIs can be regulated institutions, such as community development banks and community development credit unions, or unregulated institutions, such as community development loan funds, community development venture funds and micro enterprise funds. CDFIs can be for-profit or not-for-profit.

The need for equity-like capital

A strong permanent capital base is critical for CDFIs because it increases the organization's risk tolerance and lending flexibility, lowers the cost of capital, and protects lenders by providing a cushion against losses in excess of loan loss reserves. It allows CDFIs to better meet the needs of their markets by allowing them (CDFIs) to engage in longer-term and riskier lending. A larger permanent capital base also provides more incentive for potential investors to lend money to a CDFI. All of these results help CDFIs grow their operations and solidify their positions as permanent institutions, but equity capital has historically been a scarce commodity for nonprofit CDFIs.

Unlike for-profit corporations, which can raise equity by issuing stock, nonprofits must generally rely on grants to build this base. Traditionally, nonprofit CDFIs have raised the equity capital they need to support their lending and investing activities through capital grants from philanthropic sources, or in some instances, through retained earnings.

However, building a permanent capital base through grants is a time-consuming process, and one that often generates relatively little yield. It is also a strategy that is constrained by the limited availability of grant dollars.

In 1992, National Community Capital (then, the National Association of Community Development Loan Funds) launched a \$25 million National Equity Grants Program to raise equity for its Member CDFIs and for its own loan fund. Early on, National Community Capital realized that a strategy relying exclusively on grants was limited by the finite resources of foundations and corporate philanthropies and that the organization would have to cultivate additional sources of equity. The growing visibility of CDFIs as effective community development lenders, coupled with expected changes in the Community Reinvestment Act, made conventional financial institutions likely partners in this effort.

Developing a solution to meet the need

With support from The Ford Foundation, National Community Capital started the Bank Equity Project in 1995 to create a new financial instrument that would function like equity for nonprofit CDFIs. To realize this goal, National Community Capital needed an experienced partner to help develop an equity equivalent and make a lead investment. NCCA's intention was to complete a transaction that would serve as a model for replication by other nonprofit CDFIs. Citibank's demonstrated support for National Community Capital's work and its strategic commitment to community development made it a logical choice. The equity equivalent investment product, or EQ2, was developed through the Citibank/National Community Capital collaboration and provides a new source and type of capital for CDFIs. It is a long-term, deeply subordinated loan with features that make it function like equity.

To meet the needs of both National Community Capital and Citibank, the

1. Throughout this document, the term "CDFI" refers to private-sector Community Development Financial Institutions, whether certified as such by the US Department of Treasury or not.

EQ2 would need to pass a regulatory test. Without recognition under CRA that the EQ2 would be considered a qualified investment and/or could secure enhanced lending test credit for a bank investor, there would be little incentive for a bank to make such an investment. National Community Capital and Citibank secured formal regulatory opinion letters that provide favorable recognition of the EQ2 as a qualified investment under the CRA investment test and as a vehicle for achieving multiplied credit under the lending test (described in more detail below).

The Community Reinvestment Act

The Community Reinvestment Act (CRA), enacted in 1977, requires regulated financial institutions to help meet the credit needs of the

An institution cannot receive a composite rating of satisfactory unless it receives a rating of at least low satisfactory on the lending test.

communities in which they do business, including low-and moderate-income neighborhoods. Revised CRA regulations that took effect July 1, 1995 strengthened the nearly two-decades-old law. Among other changes, the new regulations

explicitly recognize loans to and investments in CDFIs as examples of community development loans and qualified investments.

Under the new rules, banking regulators assign banks a CRA rating based upon their performance on a number of tests and standards. The banking institution's type and size determine which tests and standards apply. The new regulations provide for three tests for large retail institutions, one broader test for wholesale and special purpose banks, a streamlined test for banks with assets of less than \$250 million, and a strategic plan option for all banks.

A large retail institution evaluated under the lending, investment, and service tests receives one of five ratings (outstanding, high satisfactory, low satisfactory, needs to improve, or substantial noncompliance) for each individual test and one of four

ratings (outstanding, satisfactory, needs to improve, or substantial noncompliance) for its composite rating. The total available points for the lending, investment, and service tests are 12, 6 and 6, respectively.

Although the lending test does not technically have to count for 50 percent of the composite rating, the practical implication is that the lending test is emphasized and counts for approximately 50 percent of the score. An institution cannot receive a composite rating of satisfactory unless it receives a rating of at least low satisfactory on the lending test. As a result, most banks view the lending test as most important.

The Equity Equivalent – What Is It?

Essential attributes

The EQ2 is defined by the six attributes listed below. All six characteristics must be present; without them, this financial instrument would be treated under current bank regulatory requirements as simple subordinated debt.

1. The equity equivalent is carried as an investment on the investor's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP)
2. It is a general obligation of the CDFI that is not secured by any of the CDFI's assets
3. It is fully subordinated to the right of repayment of all of the CDFI's other creditors
4. It does not give the investor the right to accelerate payment unless the CDFI ceases its normal operations (i.e., changes its line of business)
5. It carries an interest rate that is not tied to any income received by the CDFI
6. It has a rolling term and therefore, an indeterminate maturity

Like permanent capital, EQ2 enhances a CDFI's lending flexibility and increases its debt capacity by protecting senior lenders from losses. Unlike permanent capital, the investment must eventually be repaid and requires interest payments during its term, although at a rate that is often well below

market. In for-profit finance, a similar investment might be structured as a form of convertible preferred stock with a coupon.

To grow responsibly and manage the risks of lending over time, CDFIs must identify new sources of equity and equity-like capital. The EQ2 is one such type. In its current form, it enhances a CDFI's ability to raise debt and should increase its lending flexibility. At the same time, it also complicates the capital structure by introducing a financing source that is somewhere between debt and equity.

Pursuing this investment makes most sense for a CDFI within the context of a long-term capitalization strategy grounded in a solid understanding of the market. The equity equivalent is very attractive because of its equity-like character, but it does not replace true equity or permanent capital as a source of financial strength and independence.

Accounting treatment

An investor should treat the equity equivalent as an investment on its balance sheet in accordance with GAAP and can reflect it as an "other asset." The CDFI should account for the investment as an "other liability" and include a description of the investment's unique characteristics in the notes to its financial statements. Some CDFIs have reflected it as "subordinated debt" or as "equity equivalent." For a CDFI's senior lenders, an EQ2 investment functions like equity because it is fully subordinate to their loans and does not allow for acceleration except in very limited circumstances (i.e. material change in primary business activity, bankruptcy, unapproved merger or consolidation).

CRA treatment

Until the National Community Capital/Citibank precedent-setting transaction, there was no practical way for banks to invest in nonprofit CDFIs and claim leveraged

credit under the lending test. To understand the likely CRA treatment of Citibank's investment in National Community Capital, the two parties had a series of conversations with representatives of the Office of the Comptroller of the Currency (OCC) to explain the transaction. Citibank then asked for an advisory opinion concerning the investment's expected treatment under CRA.

On June 27, 1996, the OCC issued an opinion jointly with the Federal Deposit Insurance Corporation, Office of Thrift Supervision, and the Federal Reserve Board that Citibank would receive favorable consideration under CRA regulations for its equity equivalent investment in National Community Capital. The OCC further stated that the equity equivalents would be a qualified investment that bank examiners would consider under the investment test, or alternatively, under the lending test. In some circumstances Citibank could receive consideration for part of the investment under the lending test and part under the investment test.²

This ruling has significant implications for banks interested in collaborating with nonprofit CDFIs because it entitles them to receive leveraged credit under the more important CRA lending test. The investing bank is entitled to claim a pro rata share of the incremental community development loans made by the CDFI in which the bank has invested, provided these loans benefit the bank's assessment area(s) or a broader statewide or regional area that includes the assessment area(s). The bank's pro rata share of loans originated is equal to the percentage of "equity" capital (the sum of permanent capital and equity equivalent investments) provided by the bank.

For example, assuming a nonprofit CDFI has "equity" of \$2 million—\$1 million in the form of permanent capital and \$1 million in equity equivalents provided by a commercial bank—the bank's portion of the CDFI's "equity" is 50 percent. Now

2. See the Resources section of National Community Capital's website www.communitycapital.org for a copy of the opinion letter.

assume that the CDFI uses this \$2 million to borrow \$8 million in senior debt. With its \$10 million in capital under management, the CDFI makes \$7 million in community development loans over a two-year period.

In this example, the bank is entitled to claim its pro rata share of loans originated—50 percent or \$3.5 million. Its \$1 million investment results in \$3.5 million in lending credit over two years. This favorable CRA treatment provides another form of “return on investment” for a bank in addition to the financial return. The favorable CRA treatment is a major motivating factor for many banks to make an EQ2 investment.

Other regulatory issues

The opinion issued by the OCC with the other bank regulatory agencies addressed the expected CRA treatment of an equity equivalent investment in a nonprofit CDFI. It did not address whether a bank—in this case Citibank—may lawfully make the investment. To determine whether investment in the equity equivalents was a permissible activity, Citibank sought a separate ruling from the OCC under federal regulation 12 CFR Part 24 “Community Development Corporations and Project Investments and Other Public Welfare Investments.” Part 24 applies to national banks; similar rules are applicable to banks regulated by other federal agencies. In making its case to the OCC, Citibank had to demonstrate that the investment qualified as a public welfare investment and that the Bank had evaluated adequately the investment’s risks. In an opinion letter issued January 23, 1997, the OCC determined that Citibank’s investment met the qualifications of Part 24.

The OCC is explicit that it wants to encourage national banks to make investments designed to promote the public welfare consistent with safety and soundness. In support of that goal, the OCC issued a revised, shorter Part 24 designed to reduce the regulatory burdens on national banks seeking to make public welfare investments.

The new rule took effect October 23, 1996. The revised Part 24 affirms that national banks

can promote the public welfare through a variety of investments provided the investment primarily benefits low-and moderate-income areas or other areas targeted for redevelopment by local, state, tribal or federal governments.

In addition, the revisions streamline the approval process by expanding opportunities for banks to self-certify the investments. Under Section 24.6 of Part 24, banks may self-certify investments of a type previously determined by the OCC to be permissible under Part 24. This provision allows other national banks to benefit from the opinion obtained by Citibank, provided the proposed investment is substantially similar and consistent with safety and soundness requirements.

The Equity Equivalent: Outcomes and Benefits

National Community Capital estimates that, as of March 2000, approximately \$50 million in EQ2 investments have been made by at least 20 banks. These transactions have yielded the following results:

EQ2 capital has made it easier for CDFIs to offer more responsive financing products.

With longer-term capital in the mix, CDFIs are finding they can offer new, more responsive products. Chicago Community Loan Fund, one of the first CDFIs to utilize EQ2 capital, once had difficulty making the 10-year mini-permanent loans its borrowers needed. Instead, Chicago had to finance these borrowers with seven-year loans.

With 14 percent of its capital in the form of EQ2 and another 13 percent in pure equity, Chicago can now routinely make ten-year loans and has even started to offer 10-year financing with automatic rollover clauses that effectively provide for a 20-year term. Cascadia Revolving Fund has also been able to do more long-term, real estate-based lending with EQ2 in its capital mix.

As the community development venture capital field grows, CDFIs are looking for new ways to capitalize their organizations to meet borrowers’ needs for equity or equity-like

financing. Boston Community Capital is one example of a CDFI that has used the EQ2 to help capitalize its venture fund. Also, Cascadia Revolving Fund finds the EQ2 to be a good source of capital for its quasi-equity financing.

Use of the EQ2 has resulted in new kinds of capitalization opportunities.

Some CDFIs are finding that banks will now offer long-term (10- or 15-year) subordinated debt. Some banks have resisted the rolling term of the EQ2 but have been open to subordinated debt at a fixed term. Some banks do not yet understand the EQ2 and its benefits and, as a result, do not want to offer it. They are, however, willing to consider long-term subordinated debt, which accomplishes many of the capitalization goals the EQ2 accomplishes. It does not, however, qualify for the same CRA benefits.

National Community Capital has found a way to extend the rolling feature of the EQ2 structure to benefit community development credit unions.

The National Credit Union Administration (NCUA) allows secondary capital investments in community development credit unions (CDCUs). Secondary capital investments are uninsured, subordinate to all other claims on assets, start with a minimum maturity of five years, and are not redeemable prior to maturity. A CDCU can carry a secondary capital investment on its books as “equity” capital, but once the investment reaches a remaining maturity of five years, the portion that can be considered “equity” capital starts to decline.

In September of 1999, National Community Capital’s Board of Directors approved its first secondary capital investment. To accommodate the borrower’s need for low-cost “equity” while mitigating National Community Capital’s term risk, the NCCA Board approved an EQ2-like secondary capital investment. The result was a secondary capital investment with an initial term of six-and-a-half years which, at the end of each of the first four fiscal years, automatically extends one additional year, provided the borrower meets certain pre-

determined performance criteria, allowing for a term of up to ten-and-a-half years.

Additionally, the borrowing credit union, Alternatives Federal Credit Union in this first case, always has the option of requesting another underwriting before the fixed term kicks in at the end of the first four years to try to maintain the rolling nature of the investment.

The value of this investment structure is that it extends the period for which the full amount of a secondary capital investment can be considered “equity” (or “capital” using credit union terminology) while allowing the investor to better manage term risk. This precedent-setting transaction closed in March 2000, and National Community Capital already has two other deals like it in the pipeline.

EQ2 is typically priced between two and four percent.

When National Community Capital first developed the Equity Equivalent with Citibank, National Community Capital was uncertain about where the market would price this kind of capital. The market rate for EQ2 capital seems to be two to four percent.

CDFIs and banks have standardized the documentation for EQ2 investments, thereby lowering transaction costs, reducing complexity, and expediting closing procedures.

National Community Capital has seen good examples of both short, concise EQ2 agreements and longer, more detailed agreements. Of particular note are the loan agreements Boston Community Capital and US Bank have crafted. US Bank’s three-page agreement, which succinctly lays out the investment terms and conditions, is a user-friendly document that has been used with approximately 25 CDFIs.

The Boston Community Capital documents, with a 23-page loan agreement and a three-page promissory note, are substantially longer and more detailed, but include several statements and provisions that may

make a hesitant bank more likely to simply use the CDFI's standard documents.

For example, the agreement specifically references the OCC opinion letter recognizing an EQ2 investment as a qualified investment.

Additionally, the agreement includes a formal commitment from Boston Community Capital to assist a bank investor with a Bank Enterprise Award application³ and to provide a bank investor "with the information necessary to demonstrate the extent to which the proceeds of the Note are used to benefit the communities [the bank] serves...[and] with the necessary information for determining [the bank's] pro rata share of community development loans made by [Boston Community Capital] in order for the appropriate bank regulatory agencies to calculate the credit due under the lending test of the CRA to the extent applicable."^{4,5}

At least one CDFI has been able to build into its standard EQ2 documents a significant non-default provision.

Like the initial loan agreement between National Community Capital and Citibank, the Boston Community Capital standard EQ2 agreement details performance covenants, events of default, and remedies on default. Also similar to the National Community Capital/Citibank agreement, Boston Community Capital's agreement temporarily prevents the investor from requiring payment of principal or interest if, as a result of such payment, Boston Community Capital would be unable to pay a senior debt investor.

However, Boston Community Capital's agreement goes a step further, stating that the CDFI will not be required to make any payment of principal or interest when such payment is due if the payment would cause Boston Community Capital to fail

to comply with any senior debt holder's covenants. In other words, payment to the EQ2 investor cannot cause the CDFI to be out of compliance with senior debt investors.

This provision does not relieve Boston Community Capital of the obligation to make such a payment. It simply defers the obligation until the CDFI can make the payment without violating the terms of a senior debt agreement.

Non-bank investors are beginning to utilize EQ2 investments.

Although banks have a unique incentive under the CRA to invest in Equity Equivalents, other investors can and are beginning to use the tool as well. Boston Community Capital is in discussion with a university and a foundation that intend to make investments and are considering structuring the investments as EQ2.

While the university and foundation do not have the same CRA incentives, they are able to capitalize on the CRA lending test methodology to illustrate and articulate the impact their investments will have in the community.

Bank Enterprise Award (BEA) Credit for EQ2 investments

The CDFI Fund's BEA program gives banks the opportunity to apply for cash award for investing in CDFIs. Banks typically receive a higher cash award (15% of their investment) for equity-like loans in CDFIs than for typical loans (11% of investment).

To classify as an equity-like investment for the BEA program, EQ2 investments must have a minimum initial term of 10 years, with a 5 year automatic rolling feature (for an effective term of 15 years). For more information on qualifying for equity-like loans under the BEA program, contact the

3. The Bank Enterprise Award Program is a program of the CDFI Fund that provides incentives for banks to make investments in CDFIs.

4. Taken from Boston Community Capital's standard EQ2 agreement.

5. Visit the Resources section of National Community Capital's website www.communitycapital.org for free sample EQ2 documents.

CDFI Fund 202.622.8662 for their “Policy Guidance on Equity-Like Loans”.

A Guide to Attracting EQ2 Capital

Following is a brief guide for CDFIs that want to pursue EQ2 investments. Three CDFIs—Boston Community Capital, Cascadia Revolving Fund, and Chicago Community Loan Fund—that have been actively pursuing EQ2 investments for the last few years have offered some helpful hints that have been incorporated into this guide.

Understand the product.

Use this Primer to understand the essential attributes of the EQ2 investment. A CDFI interested in EQ2 should know these attributes inside and out. If you cannot ensure that these attributes are part of a transaction you are negotiating, you may end up with an investment that will not qualify for a bank investor as EQ2 under CRA.

Know your potential investors. Understand their needs. Be able to speak their language.

A CDFI interested in pursuing EQ2 capital should learn as much as possible about a potential investor and the investor’s needs. Know whether CRA will be a primary motivation or whether an investor has different motivations.

When dealing with a bank investor, it is likely that CRA will be the driving incentive for making an EQ2 investment. A CDFI has significantly more credibility when it can speak the investor’s language and articulate how an EQ2 investment will benefit the investor in the investor’s language.

Know who to talk to, particularly with potential bank investors.

Banks handle their community development investments in different ways, and it is important to make sure that you are talking to the right people as early on in the process as possible. Some banks make all of their community investment decisions on a local or regional level, while others require going through a national office.

Some banks use a hybrid process, sending some deals through a local or regional office and some through a national office, depending on the size, purpose, or structure of a transaction. To get more information on where you should focus your efforts, call the bank and ask, or call other CDFIs that have worked with the same banks.

Understand that you may need to develop a working relationship with potential investors before they are willing to make an EQ2 investment.

The Equity Equivalent is a higher-risk structure than a particular investor may be accustomed to using. A potential investor may need time to get comfortable with your CDFI and the CDFI’s performance. It is important to be patient and find the right balance between efficiency and investing the time necessary to cultivate investor relationships.

Educate potential investors about the EQ2, its structure, and its benefits for the investor.

Most CDFIs that have pursued EQ2 have identified the number one barrier to securing bank EQ2 investments as the challenge of helping banks understand the structure and the CRA benefits.

Most CDFIs have indicated that once a bank understands the structure and benefits, convincing the bank to invest is relatively easy. Some CDFIs indicate that although the first few investments were a challenge for this reason, several banks that now understand the tool are approaching them asking to make EQ2 investments.

Offer to help a potential bank investor achieve the benefits of an EQ2 investment.

The benefits of an EQ2 investment will not come to the bank on their own. Offer to help a potential bank investor complete a Bank Enterprise Award (BEA) application that might make the investment even more worthwhile. Offer to provide whatever information you can about the loans you make to ensure that a potential bank investor receives its due credit under CRA.

Be sure to explain to the investor how an EQ2 investment will help your CDFI do its work and be responsive to the communities it serves.

While it is important to emphasize the benefits of EQ2 to the investor, it is also important to emphasize how the Equity Equivalent can make your CDFI more relevant in its market. Demonstrate to the potential investor that EQ2 investments will help you be more responsive to market needs while earning a financial return for the investor and very attractive CRA benefits for a bank investor.

Conclusion

For CDFIs to grow and prosper, they will need to create more sophisticated financial products that recognize the different needs and motivations of their investors. The EQ2 is one step in this direction. Unlike investors in conventional financial markets, CDFI investors

(and particularly investors in nonprofit CDFIs) have few investment products to choose from.

The form of investment is typically a grant or a below-market senior loan. The new investment vehicle, the EQ2, is one step in further developing the financial markets infrastructure for CDFIs by creating a new innovative product which is particularly responsive to one class of investors—banks. Further development and innovation in CDFI financial markets will help increase access to and availability of capital for the industry.

Additional Resources:

Please visit National Community Capital's website www.communitycapital.org for the following free documents:

- Sample Equity Equivalent Agreements
- Regulatory Opinions Letters regarding EQ2

Building Better Proposal Budgets:

A primer for the new age of accountability and results

By Henry Flood, president, Institute for Grant Program Administration

Although grant writing has always been a detail-oriented task, today more than ever, grant writers are expected to not only detail the project they would like funded, but also exactly how that project will be achieved. This focus on detailing plans, procedures and results is something rather new to the world of nonprofit funding. In this article, author Henry Flood introduces grant seekers to this idea of linking grant proposal budgets to specific intended results. Using a variety of charted examples, Flood explains in depth the kind of information that is most likely to impress grant reviewers. The text also discusses the new focus on accountability and results and the ways in which they effect the grant writing process. Henry Flood has more than 30 years experience in both writing and awarding grants. He is an acknowledged expert in the field of grant writing and currently serves as president of the Institute for Grant Program Administration. Flood may be contacted via e-mail at HFlood49@bellsouth.net.

Budgets account for but 10 to 20 percent of the rating score on most competing grant applications. Yet, the budget remains the most problematic portion of most grant proposals. The typical criticisms are well known. The budget bears little relationship to the project objectives and activities. It's unrealistic relative to the scope of the project or its intended outcomes. The proposed costs are ineligible for funding. The match share is inaccurate. The proposed costs are weakly justified and explained. Worse yet, the numbers just don't add up.

More frequently than one might imagine, all of these issues and more are encountered by proposal reviewers. Too often, grant writers fail to give adequate attention to the budget in the mistaken belief that the number of points relative to the other rating factors does not merit as much attention. However, most proposal readers will quickly conclude that if

you can't add up and defend the numbers, you cannot do much else either. Proposals that start with a bad budget can go quickly downhill.

Effective grant budgets: More than just numbers

Today, when funding sources are under great pressure to demonstrate that awarded funds are tied to performance outcomes that can be measured and validated, even an accurate line item budget that is adequately explained and justified may not be sufficient.

The pressure to link funding to results arises from two principle sources. One is the Government Performance Results Act of 1993 and the other is the President's Program Assessment Results Tool (PART) which in turn is part of the government's management improvement program which is implemented through the Office of Management and Budget (OMB).

Because the effort to link programs and funding is increasingly federally mandated, the pressure to achieve and document concrete results is being rapidly passed down to the grantee community. Now, in order to successfully compete for grant funds, applicants must devise performance outcome measures then collect data to document grantee performance. When grantees fail to demonstrate performance outcomes, they risk loss of present or future grant support.

Because of past deficiencies and new requirements, I contend that grant proposals and especially grant budgets must change to meet the new realities of grant-seeking. Goals, objectives and activities must now be more concisely and carefully crafted. In turn, objectives and tasks must be linked to applicant or agency performance measures. Finally, any budget developed as part of a competitive grant proposal must itself be linked to project objectives, tasks and intended outcomes.

How should one proceed? What should the new grant budget look like? What are the barriers to crafting grant budgets from a fresh perspective? Read on for some concrete answers.

Simply put, the new grant budget should be more tightly integrated with the narrative proposal itself and its accompanying standard budget forms, all of which must not contradict each other. This means the totals of the line item budget must be accurate, link directly to Standard Form 424-A (or its approved variant) and the totals on the Standard Form 424 Application for Federal Assistance (or its approved variant).

The budget justification totals must also match the line item budget and ultimately the standard budget forms. Performing these tasks with fidelity ensures that the numbers of the line item budget and the accompanying budget forms add up and are consistent with each other. None of this information should be new to a seasoned grant writer.

The difference today is that grant budgets now must be reshaped to tie numbers directly to objectives, tasks and intended

outcomes noted in the narrative proposal. This integration can be achieved through a series of reference link-backs that are inserted as part of the line item budget that grant applicants are always required to develop.

These link-backs to the objectives, tasks and intended outcomes enable proposal reviewers to see a direct relationship between requested dollars and other parts of the proposal narrative. This integrated approach to budget construction will, if consistently followed, ensure that requested monies arise out of the objectives and activities of the proposal.

To illustrate this link between a proposal narrative and a strong line item budget, a sample of goals, objectives and activities is included on the following pages. The detailed example should clearly illustrate the linking technique advocated here.

Diabetes prevention: Model objectives and tasks

The model proposal concept I have selected is that of a diabetes prevention project for a small Indian tribe located in the Snoqualmie Valley of western Washington state. It is a long-established fact that Native Americans suffer from diabetes in much greater numbers than that of the non-Indian population.

The goal of the model project is diabetes prevention and control through a program of targeted education and testing. The model project has two funding objectives as illustrated in the following charts. Each of the two objectives directly supports the broader goal of diabetes prevention and control. The two objectives and tasks outlined in this section set the stage for the program budget contained in Section IV on the next few pages.

Clearly defined objectives and associated tasks can help you prepare to construct a budget to fund your defined tasks. This, of course, is a form of program budgeting. It is my contention that grant seekers now must place greater emphasis on linking project costs to proposed activities to defend the need for project funding.

Objective 1

Design and implement an educational program of diabetes prevention and control activities targeted to all of the 450 juvenile and adult members of the Snoqualmie Indian Tribe.

T#	Task	Assigned To	Start	End	Product\Outcome
01	Hire Project Director	Health Director	10/01/2005	10/30/2005	Hired Project Director
02	Plan & Outline Education Program	Project Director; Medical Director; Health Director	10/01/2005	12/31/2005	Diabetes Education Plan
03	Attend Diabetes Conference	Project Director; Medical Director; Nurse Educator	11/15/2005	11/18/2005	Staff Training
04	Materials Acquisition & Development	Project Director	12/01/2005	12/31/2005	Set of Educational Materials
05	Pre-Test of Oral Presentation & Materials	Project Director Medical Director Nurse Trainers	01/05/2006	01/15/2006	Testing & Feedback from Sample Audience
06	Revise Presentations as Final	Project Director Nurse Trainers	01/16/2005	01/31/2006	Final Diabetes Education Program
07	Promote Program in Community	Project Director	01/05/2006	02/28/2006	Program Publicity and Audience Interest
08	Present Diabetes Training Sessions	Project Director Nurse Trainers	02/15/2006	05/31/2006	Up to 20 Presentations to be Made
09	Training Evaluation	Participants Health Director Evaluator	02/15/2006	06/30/2006	Periodic Evaluations Training Evaluation Report
10	6 & 12 Month Progress & Financial Reports	Project Director	04/30/2006	10/30/2006 12/31/2006	Interim & Final Reports

Objective 2

Establish a voluntary screening and testing program designed to identify the likely number and percentage of the Snoqualmie Indian population who are diabetic or are at risk of becoming diabetic.

T#	Task	Assigned To	Start	End	Product\Outcome
01	Develop Diabetes Screening & Testing Protocol	Medical Director	12/01/2005	12/31/2005	Screening & Testing Protocol
02	Test Screening Protocol	Project Director; Nurse Educators	01/15/2006	02/05/2006	Testing Report
03	Revise Testing & Screening Protocol as Final	Medical Director; Project Director	02/06/2006	02/14/2006	Final Screening & Testing Procedures
04	Promote Screening & Testing Program at Education Programs	Project Director; Nurse Educators	02/15/2006	05/15/2006	Concurrent Promotion With Diabetes Education Presentations
05	Administer Screening Instruments at Each Training	Nurse Educators	02/15/2006	05/31/2006	Completed Screening Protocols
06	Analyze Screening Protocols	Project Director; Nurse Educators	02/15/2006	05/31/2006	Screening Outcomes Report
07	Target High Risk Patients From Screening Protocols	Project Director; Nurse Educators	03/01/2006	05/31/2006	Contact Report and Offer of Testing Services
08	Diabetes Testing	Nurse Educators	03/15/2006	09/30/2006	Testing Services
09	Evaluation of Testing Program	Evaluation Consultant	08/01/2006	08/31/2006	Evaluation Report
10	Referral & Treatment Follow-Up Services	Physicians, Nurses & Clinic Staff	03/15/2006	09/30/2006	Treatment & Referral Services
11	Development of Diabetes Prevention & Treatment Report	Project Director; Medical Director; Health Director; Nurse Educators	10/01/2006	11/30/2006	Draft & Final Report
12	Close out of Project	Project Director	12/01/2006	12/31/2006	Final Program and Financial Reports

The model line item budget links back to objectives and activities

The concept of the new budget is illustrated by the budget table below. This illustration is a table in Microsoft Word but could also be done just as easily in Microsoft Excel.

As you can quickly see, it closely resembles a traditional line item budget, but with added features that tie the budget to other parts of your proposal narrative.

Like any line item budget, it can be expanded to address the complexity of the proposal in terms of money and tie-backs to the proposal narrative.

Complex budgets in Microsoft Word or Excel may need to be presented in landscape format so that all of the essential data can be displayed.

The summary budget table is displayed first with no tie-back information referencing objectives or tasks. But, in the line item budget break-downs, much more detailed information is presented.

Each item of cost is specified followed by a basis of computation, cost and columns that reference objectives and tasks. The budget model that I have presented is based largely on the broad categories of Standard Form 424-A of which most will be familiar.

**Project Budget
Budget Summary**

Budget Category	Funding Source	Applicant	Total
A. Personnel	\$64,900	\$0	\$64,900
B. Fringe Benefits	\$20,119	\$0	\$20,119
C. Travel	\$4,386	\$0	\$4,386
D. Equipment	\$0	\$0	\$0
E. Supplies	\$1,700	\$0	\$1,700
F. Construction	\$0	\$0	\$0
G. Consultants and Contracts	\$4,800	\$0	\$4,800
H. Other Costs	\$4,095	\$0	\$4,095

A. Direct Personnel

Name or Position	Computation	Cost		Task
Health Director	\$60,000 X .10%	\$6,000	1 & 2	1-01; 1-02; 1-09; 2-11
Medical Director	\$90,000 X .05%	\$4,500	1 & 2	1-02; 1-03; 1-05; 2-01; 2-03; 2-11
Diabetes Project Manager	\$1,666.67 @ 100%	\$40,000		1-02 to 1-08; 1-10; 2-02 to 2-04; 2-06; 2-07; 2-11; 2-12
Nurse Educators Screeners	\$48,000 X 3 @10%	\$14,400		01-03; 01-05; 01-06 1-08; 2-04 to 2-8; 2-10; 2-11
Sub-Total		\$64,900		

B. Fringe Benefits

Name or Position	Computation	Cost	Objective	Task
Health Director	\$60,000 x .10% x .31%	\$1,860	Same as A	See A
Medical Director	\$90,000 x .05% x .31%	\$1,395	Same as A	See A
Diabetes Program Manager	\$1,666.67 @ 100% x .31%	\$12,400	Same as A	See A
Nurse Screeners (3)	\$48,000 x 3 @10% x .31%	\$4,464	Same as A	See A
Sub-Total		\$20,119		

C. Travel

Purpose of Travel	Location	Item	Computation	Cost		Task
Community Screenings & Testing	5 County IHS Service Area	Personal Car	.48 cents x 1,500 miles	\$720	2	2-2 2-5 2-8
Local Diabetes Forums	5 County IHS Service Area	Personal Car	.48 cents x 800 miles	\$384	1	1-5 1-8
National Diabetes Education Conference	Phoenix, AZ	Air Travel	3 x \$300 per ticket	\$900	1 & 2	1-3
National Diabetes Education Conference	Phoenix, AZ	Hotel & Per diem	3 persons x 4 days x \$186.00	\$2,232	1 & 2	1-3
National Diabetes Education Conference	Phoenix, AZ	Rental Car	3 days at \$50 per day	\$150	1 & 2	1-3
Sub-Total				\$4,386		

D. Equipment

Item	Computation	Cost	Objective	Task
None over \$5,000	See Supplies or Consultant Expense	-0-	N/A	N/A
Sub-Total		-0-		

E. Supplies

Supply Items	Computation	Cost	Objective	Task
Diabetes testing supplies	500 kits X \$3.00	\$1,500	2	2-8
Stationery & Envelopes	1,000 of each per Quote	\$200		1-7 2-4 2-7
Sub-Total				

F. Construction

None		\$0	N/A	N/A
Sub-Total		\$0		

G. Consultants and Contracts

Consultant or Firm	Service Provided	Computation	Cost	Objective	Task
Evaluation Consultant	Evaluation Services	\$80.00 x 60 Hrs.	\$4,800	1 & 2	1-9 2-9
Sub-Total All Consultants			\$4,800		

Consultant Expenses

Item	Location\Other	Computation	Cost	Objective	Task
			\$0	N/A	N/A
Sub-Total			\$0		

H. Other Costs

Description	Computation	Cost	Objective	Task
National Diabetes Conference Fees	3 x 700	\$2,100	1	1-3
Certification Fees	3 x 300	\$900	2	2-8
Printed Materials	5,000 pieces of literature	\$1,095	1	1-4
Sub-Total		\$4,095		

Conclusion

As Congress and the Executive agencies of the Federal government demand more information to justify projects and intended outcomes, the construction of line item budgets must change to meet the challenge of these new demands. Linking grant budgets directly to program objectives and tasks helps proposal writers and managers clearly understand the relationship between problem resolution, programs and money.

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Rural Community Assistance Corporation (RCAC) is dedicated to assisting rural communities achieve their goals and visions by providing training, technical assistance and access to resources. Core services include environmental infrastructure assistance (water, wastewater and solid waste), affordable housing development assistance (single and multi-family) and financing (predevelopment and long term).

RCAC is certified by the U.S. Treasury as a Community Development Financial Institution (CDFI). As such, RCAC provides financing for affordable and special needs housing, environmental infrastructure and community facilities. Community facilities include, but are not limited to, child care centers, adult day health care, office and program space for nonprofit organizations, shelters and health centers.

For more information about RCAC, including upcoming training events and conferences and employment opportunities, visit the RCAC website at www.rcac.org.



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