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Federal Funds for CDFIs and MDIs: Emergency Capital Investment Program (ECIP)

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The Consolidated Appropriations Act, 2021 (Act), signed into law on December 27, 2020, provides up to \$9 billion to Community Development Financial Institutions (CDFIs) and minority depository institutions (MDIs). The Act establishes the Emergency Capital Investment Program (ECIP) to encourage low- and moderate-income community financial institutions to augment their efforts to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities. On March 4, the U.S. Department of the Treasury issued its long-awaited final application forms, interim rules, and instructions for applying for these funds, available [here](#).

The funds are being provided by Treasury in the form of a preferred equity investment or subordinated debt. The program is somewhat similar to the Troubled Asset Relief Program (TARP) and Small Business Lending Fund (SBLF) programs established after the 2008 recession. A CDFI or MDI must file an application with Treasury by May 7, and after due diligence and approval by Treasury, the CDFI or MDI and the Treasury will execute a number of legal documents, which should be reviewed by legal counsel, to close the transaction.

Below is a summary of the various programs available under the Act:

\$9 Billion ECIP for CDFIs and MDIs to Invest in Neighborhoods Disproportionately Impacted by the COVID-19 Pandemic (Section 522)

- Treasury purchases 10-year senior perpetual noncumulative preferred stock or subordinated debt in CDFIs and MDIs intended to count as Tier 1 Capital.
- Applicant to provide an investment and lending plan (criteria spelled out in the Act and a form is included in the application package).
- At the end of 10 years, the investment term can be extended as long as the issuer pays Treasury the highest dividend/interest rate payable to other investors.
- The dividend/interest rate starts at 2 percent for preferred and 2.5 percent for debt (but not paid or accrued until after 24 months), then lowers to 1.25/1.6 percent if the issuer increases defined lending 200-400 percent, or 0.5/0.6 percent if the increase in defined lending exceeds 400 percent.
- Deferral of dividends/interest allowed under certain circumstances.
- Maximum aggregate amounts: 7.5 percent of assets if >\$2 billion in assets; 15 percent of assets if between \$2 billion - \$500 million in assets; 22.5 percent of assets if <\$500 million in assets.
- Certain conditions to be met before Treasury can transfer the interests.
- Early redemption by the issuer allowed subject to conditions.
- Repayment incentives.
- Applicants must provide community outreach and communication regarding the availability of loans made possible by EPIP funds.
- Restrictions on executive compensation, share buybacks, and dividend payments (see interim rules [here](#)).

- CDFIs or MDIs designated in "Troubled Condition" or subject to a formal enforcement action that addresses unsafe and unsound lending practices are not eligible to participate.

In addition to the preferred stock or subordinated debt investments, the Act also allows for an additional \$3 billion in "Emergency Support" for CDFIs and communities (Section 523 of the Act). Of this amount, \$1.25 billion is for general grants for support, preparations for, and responding to the economic impact of coronavirus. The \$1.25 billion is called the CDFI Rapid Response Program (CDFI RRP). Applications for these grants may be made by CDFI's through the Treasury's CDFI Fund [website](#). Applications are due by March 25.

The remaining \$1.75 billion (the Emergency Support and Minority Lending Program) is allocated for grants to applicants to respond to the economic impact of coronavirus within specific target markets (\$1.2 billion of which is for financial assistance, awards, training, and outreach programs to CDFIs and MDIs). Details on this program are still pending, and Treasury expects to open this program by early summer 2021.

For more information on the ECIP and how your institution can apply for funding, contact [D. Taylor Tipton](#) or a member of the Firm's Financial Services team.