/ inclusiv™ /

Loan Participations and CDFI Certification

Agenda

- Who We Are
- Basics of CDFI Certification
- Basics of Loan Participations for CDFIs
- Look Before You Leap
  - Inclusiv's Loan Participation Platform
  - FIDAP Target Market Tool
- CDFI Myths & Misinformation
- CDFI Policy Update

/ inclusiv / Who We Are

- Founded in 1974 “To help low-income people and communities achieve financial independence through credit unions”
- Instrumental in campaign that led to the 1994 creation of the Community Development Financial Institutions (CDFI) Fund within the Department of the Treasury
- A certified CDFI that invests in community development credit unions
- National network of 450 CDCUs serving 20 million members
  - ✓ 75% low-income designated
  - ✓ 60% CDFI certified
  - ✓ 35% Minority Depository Institutions
  - ✓ 25% Juntos Avanzamos
- Advocate for capital and policy support for CDCUs

/ inclusiv / Who We Are *Not*

- We are *not* a vendor or consultant
- We are *not* the CDFI Fund
  - Our information and recommendations are based on our deep analysis of CDFI Fund requirements and knowledge of credit union structures and operations
  - Official guidance and application materials are available from the CDFI Fund at www.cdfifund.gov

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/ inclusiv / Who We Are

- We are committed to supporting the community development impact of credit unions across the country through capital investment, advocacy, training and education.
- We make our best efforts to provide clear, objective information about how CDFI Fund policies may affect credit unions
- This webinar is based on CDFI Fund certification policies in place as of November 2026, but please note that the Fund has proposed some significant changes that may be implemented in 2027.
- Inclusiv is submitting comments to the CDFI Fund on these certification proposals, and potential changes will be noted in this presentation and discussed at the end.

/ inclusiv / Who We Are



- The Inclusiv Learning Center will soon launch a new course on CDFI Certification and Compliance
- Course content will help credit unions stay current with rapidly changing policies and procedures
- Enrollment in the CDFI courses will be free for Inclusiv Members
- Participants in this webinar that are not Inclusiv members can qualify for complementary enrollment using the QR code on this page.

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Basics of CDFI Certification

- Target Market Test
- Accountability
- Development Services
- Primary Mission
- Non-Government
- Financing Entity
- Legal Entity

CDFIs must show they meet 7 criteria to become certified

/ Basics of CDFI Certification /

- Target Market Test
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CDFIs must show they meet 7 criteria to *become* certified

Then every year they must meet the criteria to *remain* certified

/ Basics of CDFI Certification /

- Target Market Test
- Accountability
- Development Services
- Primary Mission
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- Legal Entity

Some of the qualifying criteria are stable and some are dynamic



/ Basics of CDFI Certification /

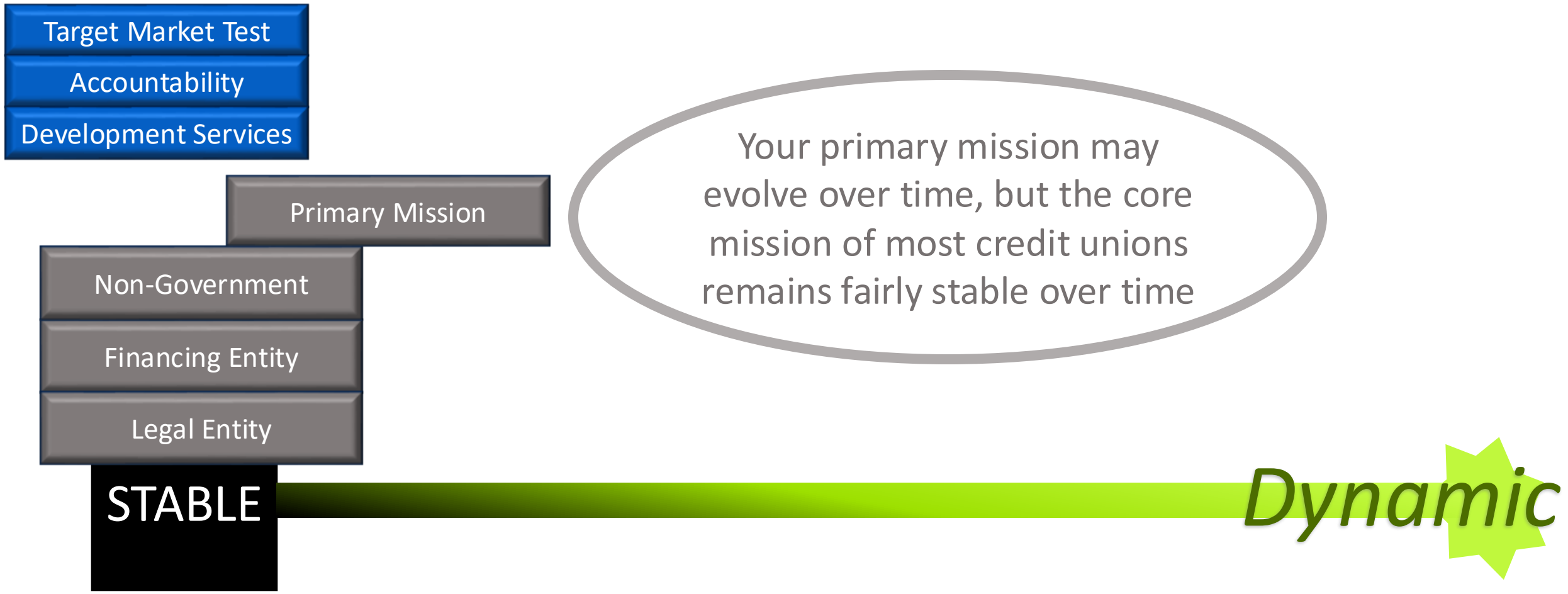




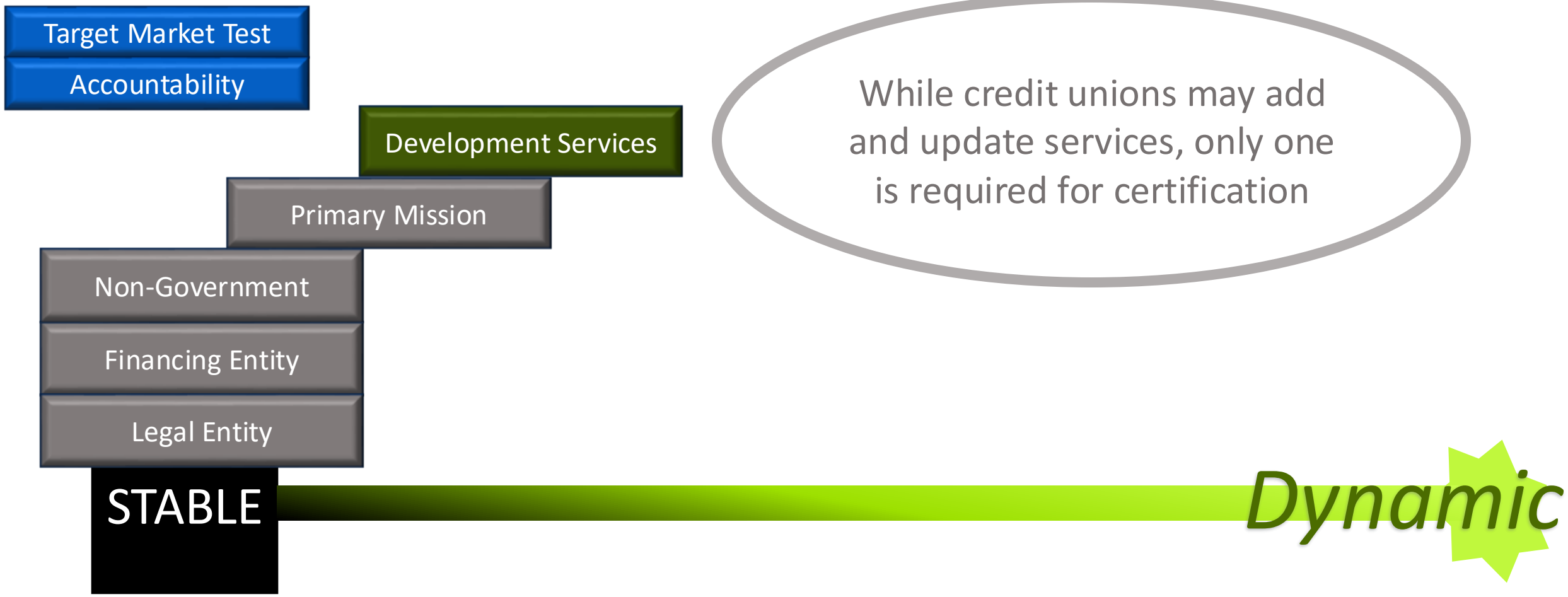
All credit unions always are legal, non-governmental financial institutions.

Dynamic

Basics of CDFI Certification

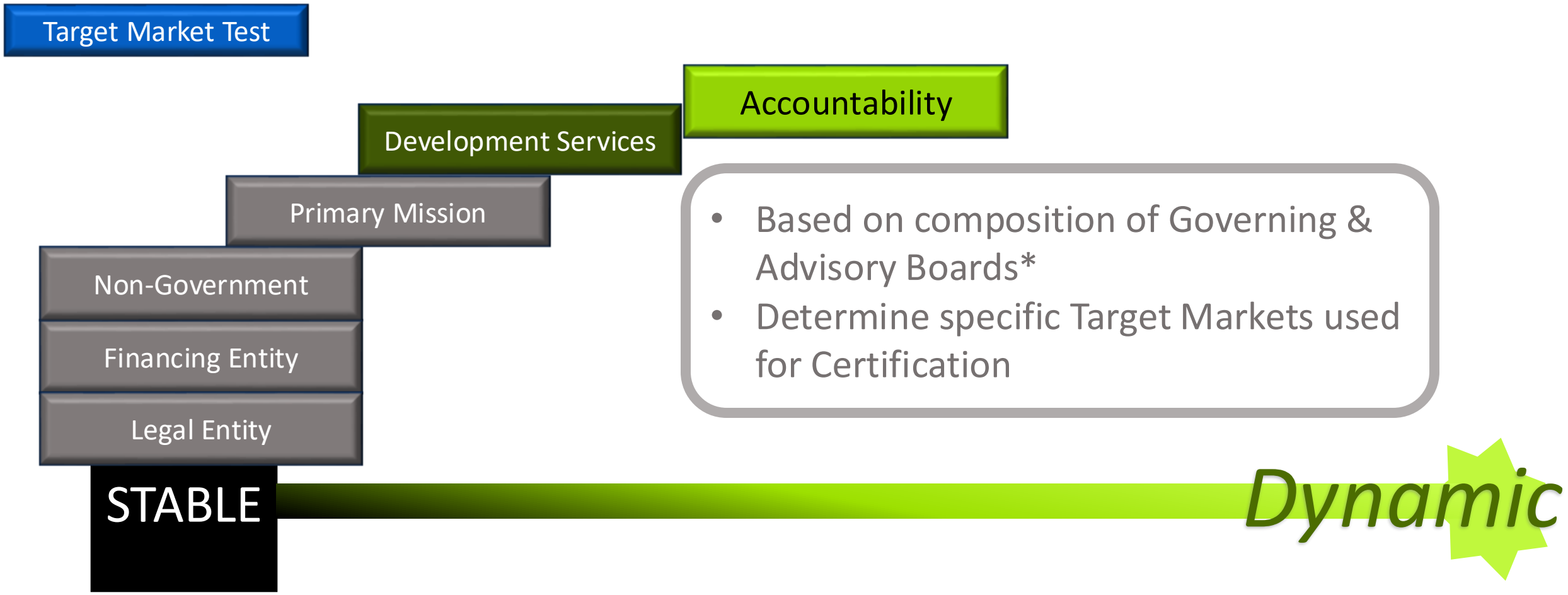


Basics of CDFI Certification



While credit unions may add and update services, only one is required for certification

/ Basics of CDFI Certification /



- Based on composition of Governing & Advisory Boards*
- Determine specific Target Markets used for Certification

* CDFI Fund proposed change

/ Basics of CDFI Certification /

- Most dynamic component



/ Basics of CDFI Certification /



- At least 60% of new loans (#,$) must be in approved Target Markets
- Target Market approval based on Accountability

/ Basics of CDFI Certification /



Accountability		Target Market Test	
Yes/No	Qualified Investment Areas	% Loans #	% Dollars
Yes/No	Low-Income Targeted Population	% Loans #	% Dollars
Yes/No	Native Americans	% Loans #	% Dollars
Yes/No	Native Alaskans	% Loans #	% Dollars
Yes/No	Native Hawaiians	% Loans #	% Dollars
Yes/No	People With Disabilities	% Loans #	% Dollars
Yes/No	Other Certified CDFIs*	% Loans #	% Dollars
Yes/No	African Americans**	% Loans #	% Dollars
Yes/No	Hispanic/Latino**	% Loans #	% Dollars
Yes/No	Filipino**	% Loans #	% Dollars
Yes/No	Vietnamese**	% Loans #	% Dollars

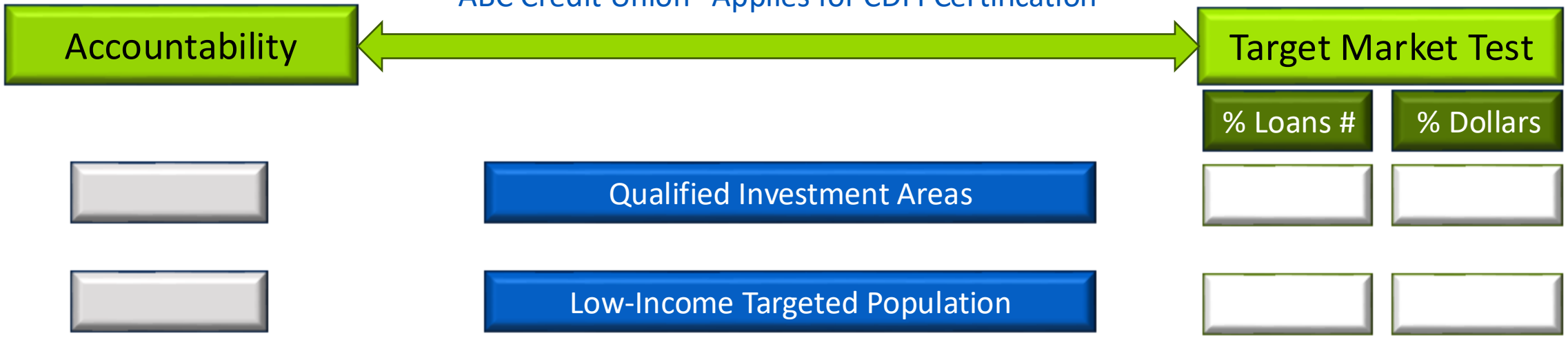
* CDFI Fund proposed change

** CDFI Fund proposed to eliminate

Basics of CDFI Certification

Example 1

"ABC Credit Union" Applies for CDFI Certification



Example 1

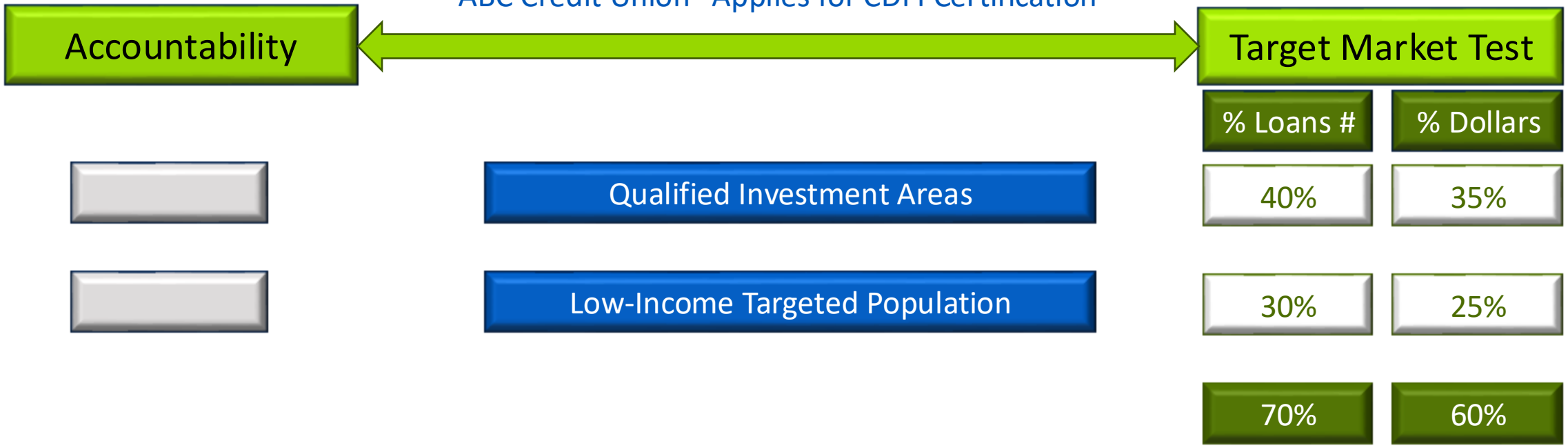
"ABC Credit Union" Applies for CDFI Certification



Basics of CDFI Certification

Example 2

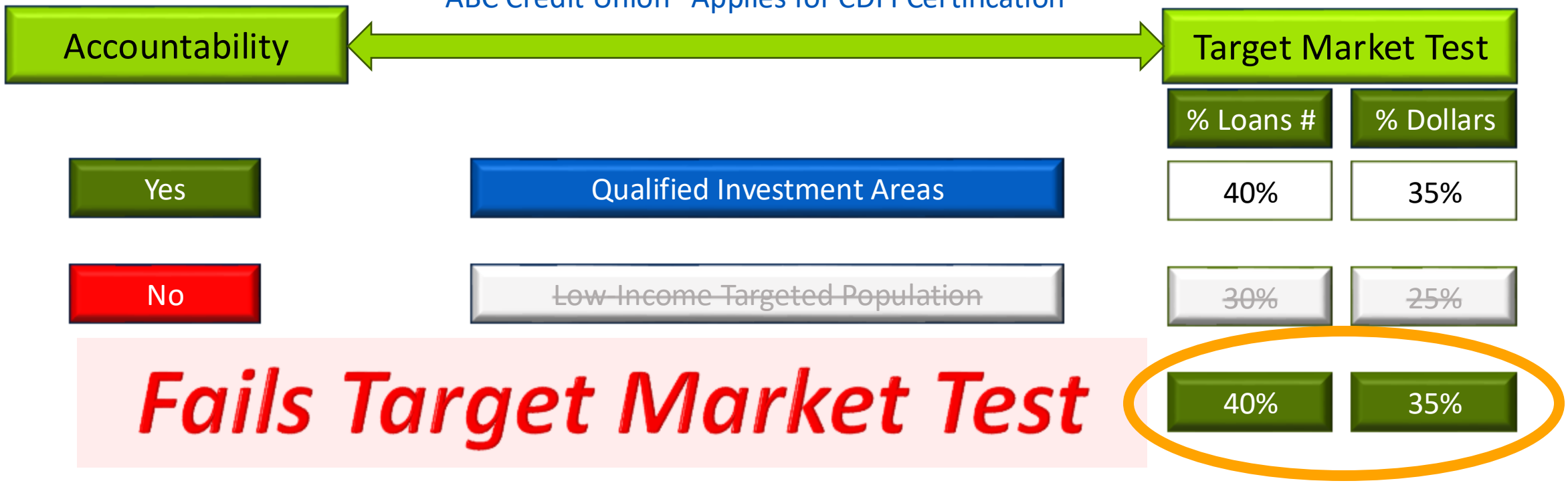
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/ Basics of CDFI Certification /

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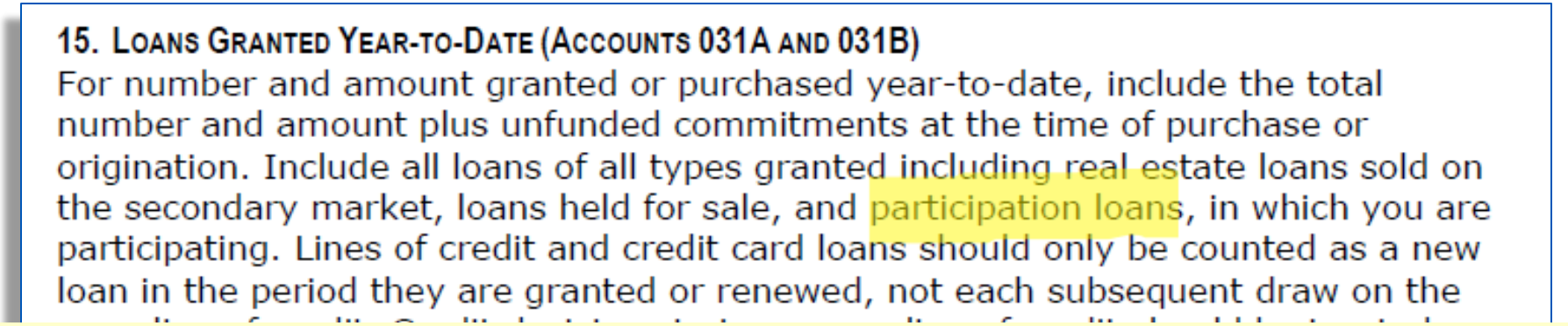


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/Loan Participations for CDFIs/

- The Target Market Test for CDFI Certification is based on *all* loans granted within a fiscal year
  - NCUA Call reports as Accounts 031A and 031B
  - Includes loan participations



15. LOANS GRANTED YEAR-TO-DATE (ACCOUNTS 031A AND 031B)

For number and amount granted or purchased year-to-date, include the total number and amount plus unfunded commitments at the time of purchase or origination. Include all loans of all types granted including real estate loans sold on the secondary market, loans held for sale, and participation loans, in which you are participating. Lines of credit and credit card loans should only be counted as a new loan in the period they are granted or renewed, not each subsequent draw on the

How do participations affect my CDFI Certification?

/Loan Participations for CDFIs/

How do participations affect my CDFI Certification?

- Base Case
  - Participation Loans are evaluated in the same way as direct loans
    - i.e., any participation loan in your certified Target Market can count towards meeting your Target Market test
- Special Case
  - If "Certified CDFIs" are approved as part of your certified Target Market, then all loans purchased from certified CDFIs can count towards meeting your Target Market test.
    - Must meet Accountability requirements for "Certified CDFI" Target Market
  - *Please note:* CDFI Fund has proposed limiting this case to CDFI Intermediaries only

/Loan Participations for CDFIs/

How do participations affect my CDFI Certification?

- *Best Case*
  - Participations can help credit unions to pass CDFI Target Market test
- *Worst Case*
  - Participations can prevent credit unions from passing Target Market Test

Let's look at some case studies!

/Loan Participations for CDFIs/

Best Case Study

- "XYZ Credit Union" certified to lend in CDFI Investment Areas
- Participates in one business loan in a CDFI Investment Area

XYZ Credit Union Approved CDFI Target Market	Direct Loans		Participation Loan		Target Market Test: Total Loans	
	100 loans	$1,000,000	1 loan	$150,000	101 loans	$1,150,000
Loans in CDFI Investment Areas	70	$550,000	1	$150,000	71	$700,000
% in Certified Target Market	70%	55%	100%	100%	70%	61%

Passes Target Market Test

/Loan Participations for CDFIs/

Worst Case Study

- "ZYX Credit Union" certified to lend in CDFI Investment Areas
- Subscribes to quarterly bulk participations of auto loans

ZYX Credit Union Approved CDFI Target Market	Direct Loans		Participation Loans		Target Market Test: Total Loans	
	100 loans	$1,000,000	400 loans	$150,000	500 loans	$1,150,000
Loans in CDFI Investment Areas	70	$650,000	100	$30,000	170	$680,000
% in Certified Target Market	70%	65%	25%	20%	**34%**	**59%**

Fails Target Market Test

Don't Panic! Just Look Before You Leap

/Loan Participations for CDFIs/Look Before You Leap

- Credit unions have many reasons that they choose to use loan participations
  - ➢ CDFI credit unions must evaluate the impact on their CDFI eligibility

- Four key questions for CDFI credit unions considering participations:
  1. *What percent of current YTD loans are in your certified Target Market?*
  2. *What percent of potential loan participations are in your certified Target Market?*
  3. *What would be the impact of loan participations on your CDFI Target Market eligibility?*
  4. *How do you know?*

/Loan Participations for CDFIs/Look Before You Leap

How do you know?

- *First*, know where you stand
  - ✓ Target Market analysis that comply with CDFI approved methodologies
  - ✓ Regular analysis of CDFI lending YTD to know Target Market status
- *Second*, know your lead lender / participation platform
  - ✓ Does loan tape includes all data needed for CDFI analytics?
    - ➢ e.g. full address, income
  - ✓ Does lead lender identify CDFI Target Market Loans?
    - ➢ If so, does it identify the specific CDFI Target Market?
    - ➢ Do they use prohibited methodologies?
- *Third*, do the math
  - ✓ Will participations help or hurt your CDFI eligibility?

/Loan Participations for CDFIs/Look Before You Leap

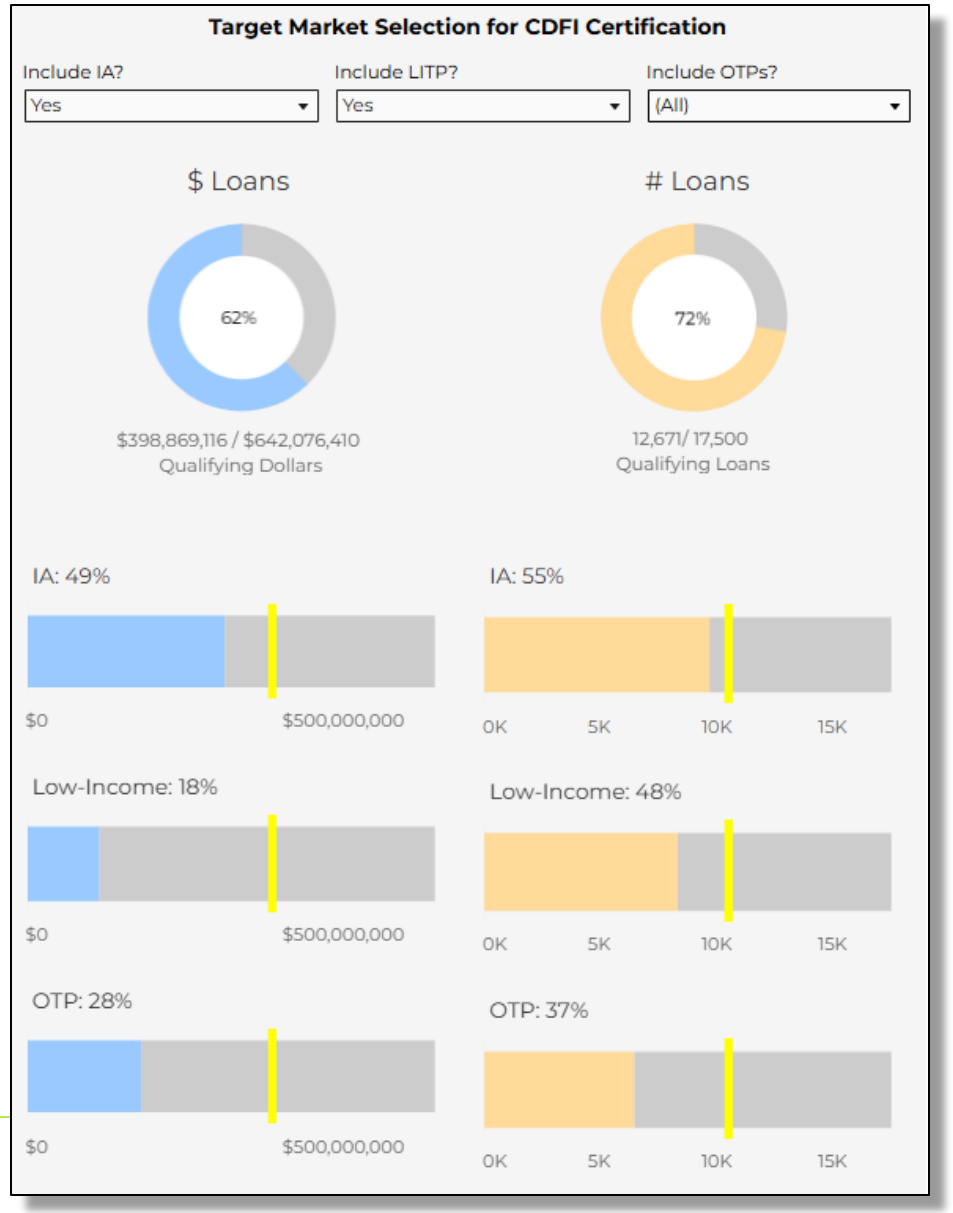
- CDFI compliance depends on data quality and timeliness
- CDFI credit unions should conduct regular analysis of year-to-date lending to ensure that they are on-track

Waiting until the fiscal year end is like driving with your rear-view mirror



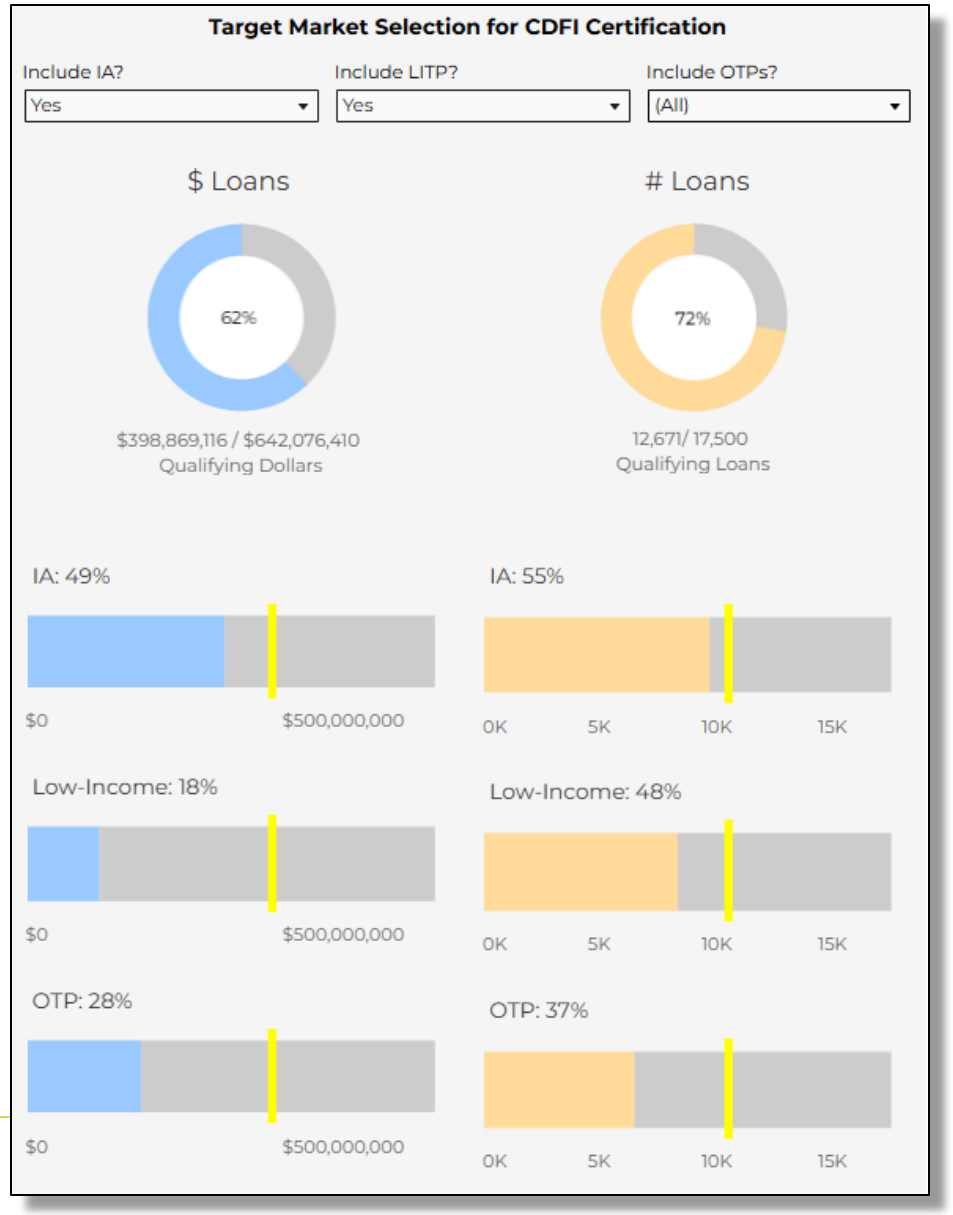
/Loan Participations for CDFIs/Look Before You Leap

- Inclusiv Members have free access to FIDAP
  - **F**inancial **I**nclusion **D**ata **A**nalytics **P**latform
  - Online platform that analyzes loan-level data for on-demand CDFI eligibility analytics and reporting
- Analyzes lending in eligible and certified Target Markets
- Analyzes Target Market eligibility of potential loan purchases and participations
- Provides data exports for Transaction-Level Reporting

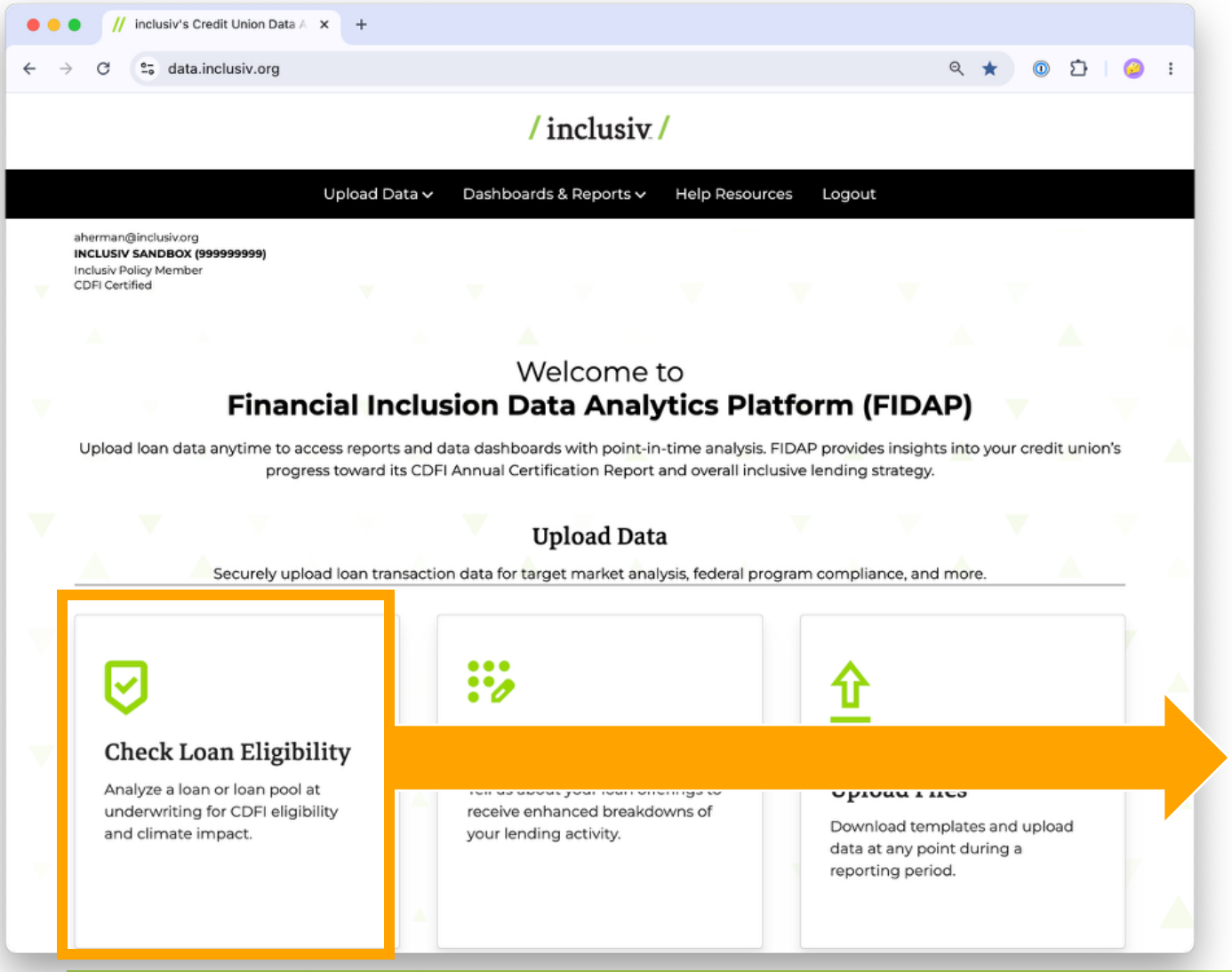


/Loan Participations for CDFIs/Look Before You Leap

- FIDAP gives credit unions ability to know the status of their CDFI lending on-demand, throughout the year



/Loan Participations for CDFIs/Look Before You Leap



FIDAP allows credit unions to analyze potential participations, whether a single loan or a pool of loans, for CDFI Target Market characteristics

/Loan Participations for CDFIs/Look Before You Leap

- Loan participation platforms have growing awareness of CDFI Target Markets and some now offer CDFI Target Market classifications, but knowledge of CDFI policies is incomplete, e.g.
  - use of geographic proxies for low-income classification, which is prohibited by the CDFI Fund
  - generic flagging of “CDFI loans” without identifying specific Target Markets
- CDFI credit unions should review loan tape and independently determine Target Market characteristics before committing to participation

/Loan Participations for CDFIs/Look Before You Leap

- In 2023 Inclusiv launched a **Loan Participation Marketplace**
- Inclusiv serves as CDFI intermediary and co-investor
- $26.7 million transacted with 12 credit unions since 2023
- Currently buys and sells participations of
  - ✓ Mortgages
  - ✓ Clean energy loans
  - ✓ Small business loans
- Ensures each pool purchased and sold is at least 60% CDFI eligible

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/CDFI Myths & Misinformation/

Six common myths about CDFI certification

- *"Any credit union can get CDFI-certified"*
- *"Loan participations can be left out of CDFI Target Market calculations"*
- *"Any loan purchased from a certified CDFI counts for certification"*
- *"An address alone is enough to determine CDFI eligibility"*
- *"Consultants are responsible for CDFI compliance"*
- *"Target Market analysis just needs to be done after the year's closed"*

/CDFI Myths & Misinformation /

A Note on Working with CDFI Vendors and Consultants

- Consultants and vendors provide critical services to numerous CDFI credit unions
- Inclusiv would like these engagements to be as productive as possible for CDFI credit unions, who are ultimately accountable for CDFI compliance.
- CDFI certification policies are complex and subject to change, which can challenge even the best-intentioned consultants and vendors that are not specialists in CDFI certification
- The upcoming Inclusiv Learning Center course on CDFI Certification will include a specific unit on working with consultants to encourage productive engagements that help credit unions to achieve their CDFI goals.

CDFI Policy Update

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