



Memorandum

To: Grant writers
From: CDFA Staff
Date: May 24, 2012
Re: Calculation for "Cash Value of CDBG Assistance"

One of the scoring elements of a CDBG Economic Development application deals with "Cash Value of CDBG Assistance". This is an item that is not clearly understood (by applicants *or* staff) and has often been misinterpreted. The purpose of this memo is to help explain the reason for the question, as well as proposing a standardized method for determining the value calculation.

The reason for this scoring question in the first place is to establish the cost of making a loan with CDBG funds compared to making the same loan with other monies, such as a bank loan. Ideally, the CDBG funds will reflect the general lending climate at a given point in time. If the CDBG loan is priced too low, then undue enrichment may occur by offering a "sweet" deal to the business. If it's priced too high, then undue burden may be placed on the business by overcharging for the public funds. So, this scoring element gives more points for CDBG loans that are close to market rate, and fewer points for those that are much higher or lower than market.

Here is how the calculation is made:

1. Determine the cost (i.e. the interest over the life of the loan) of the CDBG loan.
2. Determine the cost of the same loan made from a different source (i.e. a bank loan).
3. Subtract the smaller from the larger of #1 and #2.
4. Divide the result from #3 by the CDBG grant amount.
5. Multiply the result of #4 by 100 to arrive at a % figure that can be used to determine the score for the "Cash Value of CDBG Assistance".

The applicant is required to provide this calculation, along with justification backup, in their application to CDFA. CDFA staff should review the applicant's data to confirm its validity and use the information to establish a score for this element. Below is a sample of how this would work:

The terms of a proposed CDBG loan are:

Principal \$455,000
Interest rate 5.75%
Amortization 20 years
Term 5 years

Interest expense for the period of the loan is \$121,537.

Alternative bank loan at the following terms:

Principal \$455,000
Interest rate 7.5%
Amortization 5 years
Term 5 years

Interest expense for the period of the loan is \$92,036.

CDBG loan interest expense	\$121,537
Bank loan interest expense	\$ 92,036
Cash Value Difference	\$ 29,501 / \$480,000 CDBG Grant = 6%

****The applicant would get a Score of 10 based on the criteria below:**

Cash Value of CDBG Assistance

Max = 20

310.17 (d) (3)

- 20 If the value of assistance is between 0% and 5% of CDBG grant;
- 10 If the value of assistance is between 5.1% and 10% of CDBG grant;
- 5 If the value of assistance is between 10.1% and 15% of CDBG grant; or
- 0 If the value of assistance is greater than 15% of CDBG grant