



WHAT IS AN EQUITY EQUIVALENT (EQ2) INVESTMENT?

Equity Equivalent Investment is a capital product for community development financial institutions (CDFIs) and their investors. It was created in 1996 through a collaboration between Opportunity Finance Network and Citibank to expand sources of equity capital. Unlike for-profit corporations that can raise equity by issuing stock, nonprofits have traditionally built their capital base through contributions, philanthropic sources or through the accumulation of retained earnings. An EQ2 is a long-term deeply subordinated loan with features that make it function like equity.

WHAT MAKES AN EQ2 DIFFERENT FROM TRADITIONAL SUBORDINATED DEBT?

- The equity equivalent is carried as an investment on the investor's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP).
- It is a general obligation of the CDFI that is not secured by any of the CDFI's assets.
- It is fully subordinated to the right of repayment of all of the CDFI's other creditors.
- 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).
- It carries an interest rate that is not tied to any income received by the CDFI.
- It has a rolling term and therefore, an indeterminate maturity.

WHAT ARE THE BENEFITS FOR EQ2 INVESTORS?

- Fulfills investment and lending tests required for the Community Reinvestment Act (CRA); receive CRA credit every year the investment is outstanding

- Eligible for CDFI Fund Bank Enterprise Award (BEA) Program
- Provides flexibility for investment options

WHAT ARE THE BENEFITS FOR CDFIS AND THE DISTRESSED COMMUNITIES THEY SERVE?

- Strengthened capital structures
- Favorable cost of capital
- More responsive financing products
- Leverage additional debt capital
- Protect senior lenders from losses making CDFIs more attractive for investment

These benefits result in increased lending and investing in economically disadvantaged communities.

WHY PARTNER WITH FINANCE FUND CAPITAL CORPORATION?

Finance Fund Capital Corporation is a certified nonprofit CDFI lender that promotes economic revitalization and community development by providing access to capital and enabling investment and financing opportunities throughout Ohio. It serves community based nonprofit organizations and for-profit businesses in distressed urban and rural communities by providing loans and investments in projects expanding affordable housing, job creating economic development and community facilities.

WHAT ARE FINANCE FUND CAPITAL CORPORATION'S OUTCOMES TO DATE?

- Since 2006, FCAP has leveraged \$92 million on investment of \$38 million
- Created or retained 3,261 FTE positions
- Developed or rehabbed 773,566 sq. ft. commercial/retail space

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