MUNICIPAL FINANCE CORPORATION (PROPOSED)

CONFIDENTIAL BUSINESS PLAN

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DRAFT

DISCLAIMER

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The HR&A Team consists of HR&A Advisors, Inc.; Gary Steven Findley & Associates; and Contigo Communications.

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I. Executive Summary

The City and County of San Francisco ("the City" or "City") proposes to establish a City-owned Municipal Finance Corporation ("MFC") with a mission to promote an economy that upholds equity, social justice, and ecological sustainability. The following business plan details the proposed MFC's approach to creating an entity that successfully achieves this mission while upholding the values of the City and its diverse communities and performing according to the highest financial standards and requirements. It will do so by focusing its initial lending activities on affordable housing development and affordable homeownership, local enterprises (small businesses), and green investments and environmental justice, working across all of these areas with San Francisco's many community financial institutions ("CFIs") and community development financial institutions ("CDFIs").

The fundamental need for a City-owned MFC stems from the historic inability of traditional financial institutions to equitably serve the needs of low-income communities and communities of color and to deliver financial services that are not extractive or damaging to those same communities. There are two faces to this issue. The first is a lack of access to quality financial services that provide residents, businesses, and others with the instruments to better their lives. The second are the consequences of that lack of access, which has caused worse outcomes in economic, employment, health, and environmental outcomes that continue to this day.

This large gap in the local financial market, which the MFC seeks to fill, amounts to billions of dollars a year. This gap is spread across the MFC's priority lending areas. The City projects that affordable housing development will require more than $400 million dollars a year through 2030 in addition to funds it has already committed. Affordable homeownership will require additional funds. Local enterprise lending for small businesses unsupported by traditional banks and other financial institutions likely runs to several tens of millions of dollars annually. Lastly, green investments constitute a vast and urgent need for San Francisco. The City has established an ambitious Climate Action Plan to reach net zero greenhouse gas emissions by 2040. The University of California, Berkeley's Center for Law, Energy, and the Environment estimated that implementing this plan could require up to $21.9 billion—approximately $1.3 billion per year.

The MFC has identified a series of products and services that it can provide to fill this gap through extensive outreach to CFIs and CDFIs, San Francisco businesses and nonprofits, and other City agencies and entities. The MFC is designed to work in partnership with San Francisco's many dedicated CFIs and CDFIs through participation lending and other collaborative approaches. Acknowledging these institutions' front-line role in serving local communities and these institutions' extensive community relationships and trust, the MFC will establish working relationships to provide capital to and through them, achieving broader impact than it could on its own. Together, the MFC and partner institutions will support affordable housing development and preservation; loans for first-time homebuyers; small business finance; revolving loan and bridge funds; and the construction of public and private clean-energy infrastructure such as solar-plus-storage and electrification systems at the neighborhood scale or for individual homes.

In 2021, the San Francisco Board of Supervisors created The San Francisco Reinvestment Working Group ("RWG") by unanimously passing Ordinance No. 87-21 ("the Ordinance" or "Ordinance") to develop business, financial, and governance plans to establish a San Francisco MFC. The MFC will comply with local, state, and federal laws and regulations and will adopt sound management and financial practices to achieve its mission.

[Note from the HR&A Team: We are not representing that this business plan complies with applicable laws but stating that the MFC, once established, will do so.]

Why Is an MFC Needed? San Francisco Challenges and Priorities for MFC Operations

The City and County of San Francisco took action to address decades of racial discrimination and unequal access to finance by private lending institutions by passing Ordinance No. 87-21 in 2021. The Ordinance allows the use of public funds through a City-owned MFC to address three main areas where financing disparities are most pronounced: affordable housing, small businesses, and green investments, recognizing the need for public engagement in closing the gap in access to capital. To understand historical challenges and needs, and offer context to the potential products or services that a City-owned MFC can offer, it is important to examine the ways in which traditional banks have underserved or actively discriminated against multiple communities in San Francisco.

Affordable Housing

Prospective homeowners and renters have been actively discriminated against on the basis of race and income. According to a San Francisco Planning report, although the share of people living in overcrowded conditions has decreased since 1990, more minority and other ethnic groups continue to experience substandard housing than white city residents.[1] For instance, 20% of Hispanic and Asian/Pacific Islanders, and 8% of African Americans live in overcrowded housing, compared to 3% of the city's white population. The high number of San Franciscans living in such conditions, in addition to the statewide homelessness crisis in California, reveals the legacy of redlining and other market challenges in the lending and housing sectors.

Traditional banks, which currently account for 65% of all loans issued in the City, have played a significant role in discrimination through the historic practice of redlining. This now-illegal practice involved denying loans or credit to certain neighborhoods based on the racial makeup of the area, and has contributed to historical patterns of discrimination and limited the ability of communities of color to purchase homes. This has led to concentrated areas of poverty and overcrowding and perpetuated the gap in homeownership between Black and white populations, which remains at the same level it was in 1890.[2] Data from the Census Bureau's 2020 American Community Survey shows that in San Francisco, the homeownership rate in neighborhoods that were redlined in the past was about 25%, compared to an average of 40% in city as a whole.

Even in the present day, the Greenlining Institute found that in the San Francisco region racial minorities, particularly Black and Hispanic communities, are disproportionately denied home purchase loans compared to their population size. [3] Specifically, Black households, which make up 9% of the population, receive less than 1% of home purchase loans, while Hispanic households, which make up 16% of the population, receive only 4% of such loans. These figures suggest that existing banks have been less likely to lend to borrowers in neighborhoods with large populations of people of color, which has had a detrimental effect on the ability of these communities to build wealth.

As the cost of homeownership continues to rise, with home prices reaching unprecedented levels and interest rates increasing, the rental market is becoming the primary option for many households across

[1] https://default.sfplanning.org/publications_reports/Housing-Needs-and-Trends-Report-2018.pdf
[2] https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/
[3] https://greenlining.org/wp-content/uploads/2022/02/Greenlining-Home_Lending_to_Communities_of_Color_in_CA_2020-02.pdf

demographic groups. However, Black and Hispanic communities are disproportionately affected by high rental costs in proportion to their income. A significant proportion of these communities, 51% of Black and 45% of Hispanic households, are forced to allocate more than 30% of their income towards rent, thereby qualifying as cost burdened.[4] Furthermore, these communities also face discrimination within the rental market through various mechanisms, even before they become cost burdened.

A report by Zillow found that prospective renters of color are faced with higher security deposit demands and have to submit more applications and pay higher fees than white renters.[5] In 2021, 61% of renters applied for two or more properties, an increase of 11 percentage points from 2019 and five points higher than in 2020. White or Asian American and Pacific Islander renters typically submit two applications, while Black or Hispanic renters typically submit three. More than a third of renters of color, 38% of Black and Hispanic renters, 33% of Asian American and Pacific Islander renters, and 21% of white renters had to submit five or more applications during their home search.

Small Businesses

The uneven representation of Black and Hispanic-owned small businesses in San Francisco highlights a lack of equal economic opportunities and social mobility in the City. According to data from the U.S. Census Bureau, the percentage of employer businesses owned by African Americans in the city is lower than the national average. In 2019, only 1.5% of employer businesses in San Francisco were owned by African Americans, compared to 2.5% nationally.[6] This disparity is stark as African Americans make up 9% of the city's population. Likewise, the share of Hispanic-owned small businesses is disproportionately low compared to the national average and their weight in the city's population: only 3.5% of small businesses are owned by Hispanic residents, as opposed to the national average of 5.5%, and much lower than the 16% of total Hispanic residents in San Francisco.[7]

Low access to financial services significantly contributes to this ownership disparity, mainly due to limited access to banking services in many neighborhoods and discriminatory underwriting criteria. In terms of the former, a report by the National Community Reinvestment Coalition found that in San Francisco 14% of total bank branches closed in the period between 2008 and 2016, mainly affecting Black and Hispanic residents. These communities are disproportionately likely to have limited access to traditional banking services, with many living in "banking deserts."[8]

Biases in loan underwriting criteria also play a significant role in the financing gap faced by minority-owned small businesses in San Francisco and across the country. Even after controlling for credit score and income, these businesses often face more stringent procedures and suboptimal terms and interest rates, indicating the continuation of racial bias. Furthermore, financial institutions may also prefer businesses with a more established track record, leaving newer and smaller businesses in need of capital to scale up their operations at a disadvantage.

According to a study conducted by the Federal Reserve, only 25% of Hispanic-owned firms with low credit risk received all the non-emergency financing they sought, compared to 48% of white-owned firms with the same low credit risk. The same study also showed that only 35% of Black-owned small business received all requested funding, compared to 60% for their white-owned counterparts.[9] If

[4] https://nationalequityatlas.org/indicators/Housing_burden#/?geo=04000000000006075
[5] https://zillow.mediaroom.com/2022-04-06-Renters-of-color-pay-higher-security-deposits,-more-application-fees
[6] https://www.brookings.edu/essay/to-expand-the-economy-invest-in-Black-businesses/
[7] United States Census Bureau, Annual Business Survey Annual Business Survey, 2019
[8] https://ncrc.org/wp-content/uploads/2017/05/NCRC_Branch_Deserts_Research_Memo_050517_2.pdf
[9] U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.

evaluated by ethnicity, 60% of non-Hispanic-owned firms received all funds requested, while only 45% of Hispanic-owned businesses received requested funding.

Even publicly funded initiatives like the Paycheck Protection Program (PPP), created to provide financial assistance to small businesses to help them keep their employees on payroll during the COVID-19 pandemic failed at improving this financing disparity. Businesses located in areas with high median household incomes ($150,000 or more) were more likely to receive PPP loans, with around half receiving the loan. Conversely, only about a quarter of businesses located in areas with lower median household incomes (under $75,000) received the loan. Furthermore, the data shows that business owners in predominantly Hispanic areas had the lowest rate of PPP loan receipts, with only 22% receiving the loan. Businesses in primarily Black neighborhoods had a similarly low rate of loan receipt at 23%, while businesses in predominantly Asian and white areas fared better, with 34% and 41% receiving PPP loans, respectively.[10] This lack of access to capital has significantly impacted minority-owned businesses' ability to grow, thrive, and sustain economic shocks, hindering their ability to create jobs and stimulate economic growth in their communities in an enduring and sustainable way.

Green Investments

Residents of low-income and minority communities in San Francisco suffer from environmental inequality as they face limited access to safe housing options in areas with lower ecological hazards. The San Francisco Human Rights Commission found that neighborhoods with a history of industrial and polluting activities, such as Bayview Hunters Point, have higher rates of chronic conditions that put pressure on public health and the labor market.[11] This is reflected in data from the California Environmental Protection Agency's CalEnviroScreen tool, which shows that census tracts with the highest Pollution Burden scores in the City also tend to have a higher proportion of Hispanic and African American residents.

The transition to a sustainable energy future is crucial for addressing the pressing environmental challenges facing our world today. However, it is essential that this transition is not only environmentally sustainable, but also socially just. This means that investments in electric appliances, solar power, energy storage, and other green technologies must be directed towards addressing the environmental injustices faced by communities of color across the City. Unfortunately, and judging from the past, existing financial institutions, such as private banks, that continue to fund fossil fuel projects and have a history of neglecting investment in minority communities, will not address this need effectively. Therefore, new and innovative models of financing and investment must be developed that prioritize the needs of historically marginalized communities. This include community-based and socially responsible public-owned options that ensure that the transition to sustainable energy is inclusive and equitable.

II. Description of Business

A. Business and Market Niche

Overview of Lending Areas

As originally articulated in City and County of San Francisco Ordinance No. 87-21, the establishment of the MFC will create a "fiscally safe and sound institution" in which to invest City public funds in ways that

[10] Oh, Soo et al. (2021). *Geocoded loan data from the Paycheck Protection Program 2020 (PPP)*. Reveal from the Center for Investigative Reporting.

[11] https://sf.gov/sites/default/files/2023-01/HRC%20Reparations%202022%20Report%20Final_0.pdf

advance the City's values and interests.[12] In particular, the MFC will provide loans and other financial products that promote desired outcomes in the following three lending areas:

- **Affordable Housing Development and Affordable Homeownership**, to address the City's worsening affordability crisis and racial inequity in homeownership. The MFC will support the production and preservation of affordable rental units and lower financial barriers that lower-income households and households of color face in accessing homeownership.

- **Local Enterprises**, to address racial disparities in accessing commercial capital and build community wealth through small businesses, nonprofits, and cooperatives. The MFC will strengthen the viability of local small businesses and nurture entrepreneurship, specifically for women and people of color.

- **Green Investments and Environmental Justice**, to mitigate the impacts of climate change and environmental racism. The MFC will support initiatives that reduce greenhouse gas initiatives—such as building electrification, renewable energy production, transit expansion, and vehicle electrification—and reduce pollution burdens in disadvantaged communities.

In the future, the MFC may consider entering other markets, such as those of public lands, sustainable food systems, foreclosure prevention and homeowner assistance, and student loans. The MFC will be prohibited from lending for and participating in other activities that conflict with the City's values, including (but not limited to) predatory lending, fossil fuels, tobacco, firearms, other weapons, prisons and detention centers, and businesses holding a record of labor law violations. The MFC does not consider any of its proposed product offerings to be non-traditional commercial banking activities.

This section details local lending needs in these areas and outlines the specific financial services that the MFC proposes to provide.

Methodology

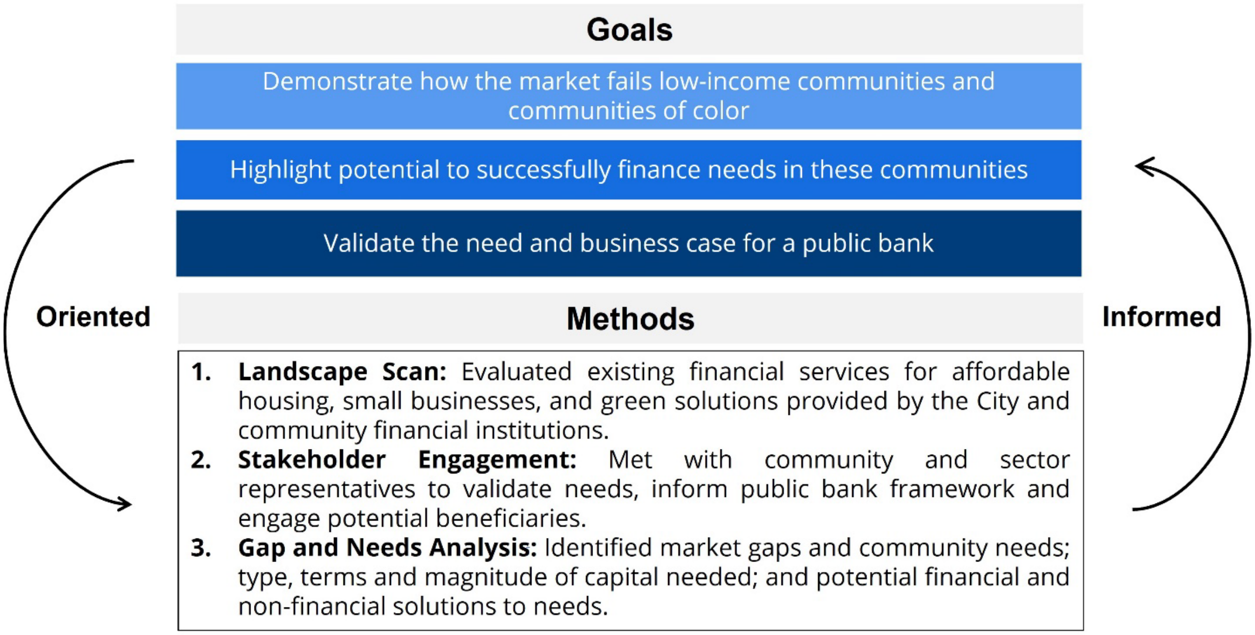
The City conducted extensive research, analysis, and outreach to answer two primary questions surrounding the priority lending areas and define the market niche for the MFC:

- What are the unmet financing needs and barriers to access for disadvantaged populations?
- What services, products, or terms are required to meet those needs?

This process entailed a three-pronged approach, including qualitative and quantitative methods, to validate the need for the MFC and inform its product offerings. These steps are displayed in the Figure below and described in greater detail on the subsequent pages.

Figure 1. Methodology to Define Market Niche

[12] https://sfgov.legistar.com/View.ashx?M=F&ID=9596572&GUID=E3366761-048C-40AD-AF3D-FC352B6A33D7



Landscape Scan

The first task was to establish a sound understanding of the local lending landscape. To quantify the supply of local financial products, the City investigated the services provided by regional community financial institutions (CFIs) and community development financial institutions (CDFIs) and the City departments with which they frequently partner, including the Office of Small Business (OSB), Office of Economic and Workforce Development (OEWED), Mayor's Office of Housing and Community Development (MOHCD), and Department of the Environment (SF Environment). For each, the City documented core product offerings, rough order-of-magnitude financing availability (total and per applicant), loan terms, and impact metrics. Where possible, the City also identified points of contact at each organization or department to engage via interview or focus group (described more in the following section).

To better understand the scale of demand for these services, the City also analyzed national studies from the Federal Reserve Bank for local enterprise, City department reports for affordable housing, and a strategy report from the University of California, Berkeley's Center for Law, Energy, and the Environment (CLEE) for green investments and environmental justice.

Stakeholder Engagement

The outreach phase focused on engaging would-be clients and partners of the MFC, such as CFIs, CDFIs, local organizations and businesses, and City departments. The efforts focused on reaching those that are most likely to benefit from the creation of the MFC, and negatively impacted by current lack of access to financial services. The aim was to identify unmet needs and inform the MFCs' niche.

The engagement process included both focus group discussions and one-on-one interviews. These were structured to have representation from various supervisorial districts, particularly those with concentrated low-income and racially diverse populations, San Francisco residents and business owners with different socioeconomic backgrounds, and individuals who have had experience interacting with existing financial institutions.[13]

Based on these criteria, the City and its advisors met with the following organizations:

Affordable Housing Development & Homeownership

- Council of Community Housing Organizations
- Episcopal Community Services of San Francisco
- Homeownership San Francisco
- Housing Rights Committee of San Francisco
- Mission Economic Development Agency
- Mission Housing Development Corporation
- San Francisco Community Land Trust
- San Francisco Housing and Development Corporation
- Tenderloin Neighborhood Development Corporation
- Young Community Developers

CFIs, CDFIs, and Credit Unions

- Beneficial State Bank
- California Credit Union League
- EastWest Bank
- Enterprise Community Loan Fund
- Housing Trust Silicon Valley
- ICA Fund Good Jobs
- Main Street Launch
- Mission Economic Development Agency
- Momentus Capital
- Pacific Community Ventures
- San Francisco Federal Credit Union
- Self-Help Federal Credit Union
- Working Solutions

Green Investments and Environmental Justice

- Bay Area Climate Adaptation Network member
- Bayview-Hunters Point Community Advocates
- Emerald Cities
- Just Solutions Collective
- San Francisco Climate Emergency Coalition
- San Francisco Electrical Contractors Association
- Bicis del Pueblo

[13] The City and County of San Francisco is divided into 11 supervisorial districts, each of which elects one member to the Board of Supervisors, the City and County's legislative body.

Small Business

- California Reinvestment Coalition
- Chinatown Merchants Association
- Literacy for Environmental Justice (provided input related to small businesses and green energy)
- National Association of Minority Contractors
- North-East Business Association
- Project Equity
- San Francisco Small Business Commission member
- Small Business Majority
- Sunset Mercantile
- Multiple small businesses

City and County of San Francisco

- Contract Monitoring Division
- Office of Economic and Workforce Development
- Office of Small Business
- Port of San Francisco

Community and Policy Advocacy Organizations

- People Organizing to Demand Environmental and Economic Justice
- SPUR (the San Francisco Bay Area Planning and Urban Research Association, which goes by SPUR, is a nonprofit public policy organization)

Other Organizations (Insurance)

- Merriwether & Williams (private company providing risk management and insurance brokerage services that has supported City programs in the past)

Gap and Needs Analysis

As a final step, the City synthesized findings from the above research to define overall market gaps: markets, products, and services for which demand outweighs supply. Specific types of gaps identified include product types (e.g., credit enhancements, guarantees, etc.), loan repayment terms (i.e., duration and interest rate), and estimated shortfall of capital. These findings are described below and they inform the MFC's proposed market niche and activities.

Lending Needs & Proposed Services

Affordable Housing Development and Homeownership

Lending Needs

San Francisco's worsening housing affordability crisis has become untenable. The cost of living in the city is the second highest in the nation, with a median rent of $3,000[14] and average home price approaching $1.4 million[15]. Nearly 74% of renter households earning less than $75,000 annually are cost-burdened

[14] https://www.zumper.com/blog/rental-price-data/
[15] https://www.fortunebuilders.com/top-10-u-s-cities-with-the-highest-rents/

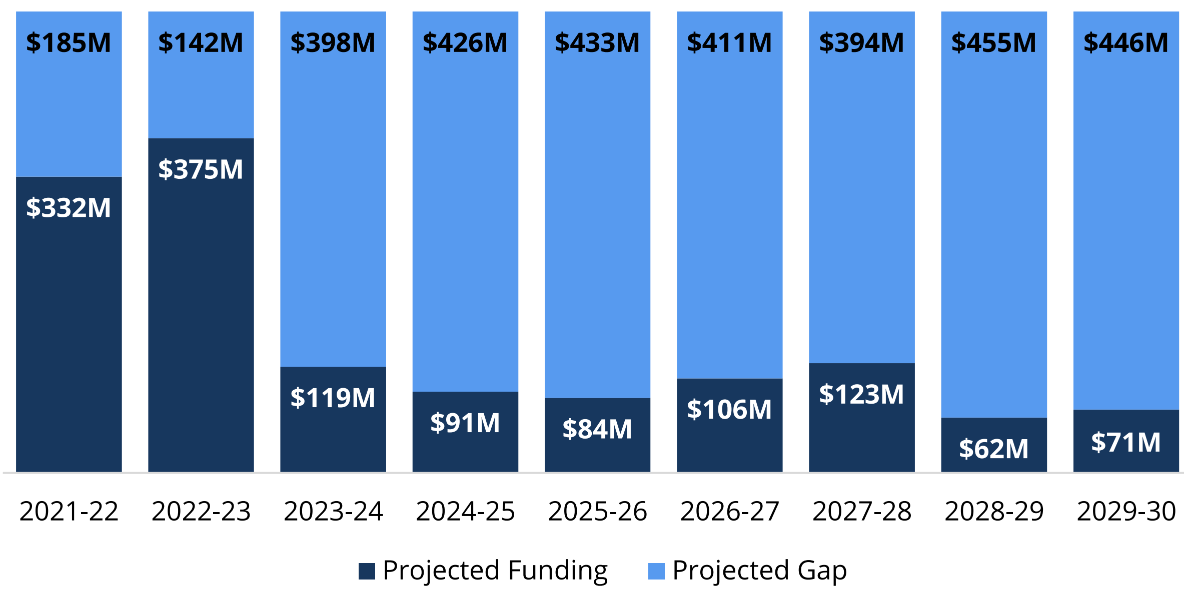
(meaning that they spend more than one third of their income on housing)[16] while evictions have escalated since the conclusion of the California's eviction moratorium in October 2021.[17] The racial gap in homeownership has also continued to widen; between 2000 and 2019, the Black and Latinx homeownership rates in San Francisco dropped by 7 and 3 percentage points, respectively.[18]

Underpinning this crisis is a lack of supply. In recent decades, the City has not built sufficient housing to keep pace with a growing population. In the fifth Housing Element cycle (2015-2022), San Francisco was required to plan for the construction of nearly 29,000 units to meet demand, including 16,000 units affordable to moderate-, low-, and very low-income households.[19] However, between 2012 Q1 and 2021 Q4, the City has entitled the construction of just 9,822 affordable units.[20] This gap is expected to widen in the coming years; for the sixth Housing Element Cycle (2023-2030), the City must plan for the construction of over 82,000 units, of which approximately 46,500 must be affordable.[21]

Robust funding and financing mechanisms are needed as demand continues to grow. Although significant public resources have been committed to new affordable housing in recent years, available funding is expected to decline in 2023 as current bond financing and federal transfers are fully allocated.[22] As a result, the City faces a funding gap of several hundred million dollars annually through at least 2029-30 (see Figure 3).

[16] American Community Survey, 2020; Cost burden is defined as spending at least 30% of household income on housing costs
[17] https://www.sfchronicle.com/realestate/article/eviction-notices-san-francisco-17553841.php
[18] https://bayareaequityatlas.org/node/65531
[19] https://www.hcd.ca.gov/housing-elements/docs/san-francisco-5th-adopted040615.pdf
[20] https://sfplanning.org/sites/default/files/documents/reports/HousingBalance14_PC_20210427.pdf
[21] https://abag.ca.gov/sites/default/files/documents/2021-12/Final_RHNA_Allocation_Report_2023-2031-approved_0.pdf
[22] https://default.sfplanning.org/plans-and-programs/housing/affordability-strategy/HAS_Affordable%20Housing%20White%20Paper_Final.pdf

Figure 2. Projected City Sources and Gap for Affordable Housing



Sources*: HR&A Team summary of MOHCD and Strategic Economics' Affordable Housing Funding, Production, and Preservation White Paper, 2020.*

Our analysis revealed financing challenges and gaps for both affordable housing development and homeownership opportunities. These include, but are not limited to, the following:

- There is a strong dependence on expensive commercial loans to fund pre-development activities.
- There is a strong dependence on expensive commercial loans to fund construction activities, and project delays threaten the viability of each project.
- Smaller organizations find meeting guarantees a challenge.
- A combination of grants and loans are needed to make small sites programs possible.
- Financing from City bond issuances is getting very competitive so developers cannot rely on this funding with as much certainty as they did in the past.
- Lack of long-term financing.
- The challenge of meeting loan loss reserves.
- The cost of financing software needed to provide small businesses with credit lines is cost prohibitive for CFIs to enter that market with such products.
- Underwriting rules are outdated and do not reflect changes to how people earn their income (e.g., gig economy).
- The coupling of Community Reinvestment Act rules and high cost of housing in urban areas is limiting opportunities for homeownership.

Proposed Products and Services

In light of these gaps, the MFC proposes to provide the following products and services to meet market demand and encourage additional borrowing:

Table 1. Affordable Housing and Homeownership Products and Services

Product	Solution
Patient and equity-like capital	Provide longer-term (10+ years) and low-interest loans—potentially structured as equity equivalent products—to CFIs and CDFIs to finance long-term projects.
Short-term financing	Provide pre-development loans to pay for a wide variety of expenses such as architectural and engineering fees, acquisition costs, among others.
Gap financing	Help developers address mismatches between costs and revenue and to cover unexpected increases in labor and material costs through gap financing.
Credit enhancement to serve customers perceived as riskier	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators.
Guarantees	Set up guarantees—construction loan guarantees, completion guarantees, operating deficit, and tax credit—for affordable housing developers.
Alternative products	Support the creation of alternative products and markets for less-common structures like land banks, community land trusts, and tenancy-in-common.

Local Enterprises

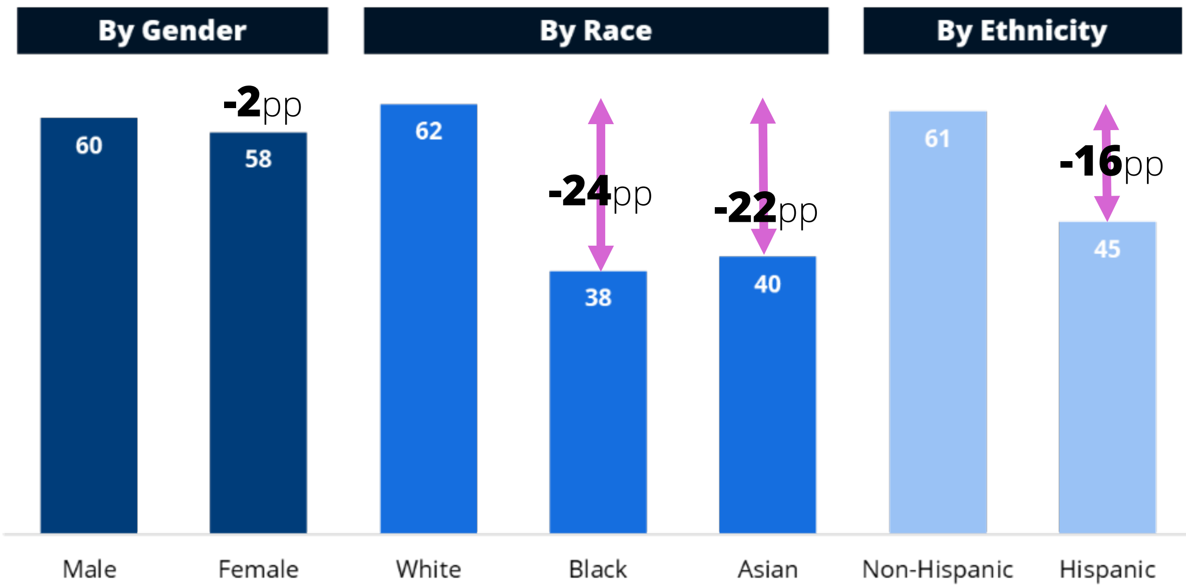
Lending Needs

Nationally, the commercial lending landscape is plagued by racial and gender-based inequities. As of 2022, only 38% of Black and 40% of Asian small business owners received all funding they requested, compared to 62% of white applicants; similarly, the share of male applicants receiving all funding requested was two percentage points higher than that of female applicants (see Figure 3). As a result, the unmet credit needs among entrepreneurs of color is estimated to be 15-25% higher than those of white entrepreneurs.[23] The racial disparity in small business lending persisted during the pandemic: only 37% of small, Black-owned businesses (i.e., with $250,000 or less in 2020 revenue) received loans through the Paycheck Protection program (PPP), compared to 52% of small, white-owned businesses.[24]

[23] Joint Committee on Financial Services Testimony of Massachusetts Public Banking in support of S.665/H.1223 An Act to Establish a Massachusetts Public Bank

[24] Reimagine Main Street, Back to Business: Are Small Businesses Rebounding from COVID-19?

Figure 3. Share of Small Businesses Receiving All Requested Funding by Gender, Race, and Ethnicity



Source*: U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.*

These inequities have, in turn, caused disenfranchisement among prospective borrowers. Many businessowners report a lack of trust in banking and government institutions, including fear of being rejected and reluctance to carry debt in general. These concerns often keep business owners from applying for the credit they need to grow, perpetuating a dynamic of inequality that entrenches racial wealth disparities.

Though CDFIs play an important role in filling these gaps, their capacity to grow is constrained. Most CDFIs finance their operations through a combination of grants, donations, and commercial bank loans; however, the financial resources at their disposal are insufficient to meet market demand.

Additionally, existing providers have gaps in various products and services, particularly in growth capital, lines of credit, and credit enhancements for CFIs that serve small businesses. These include, but are not limited to, the following:

- Banks do not offer loans and revolving credit products at or below $150,000, especially for sole proprietors and very small businesses.
- Small businesses need bridge loans to cover the period between contract award and first payment received.
- More flexible underwriting rules are needed that recognize that different businesses' potential ability to repay is not tied to financial history, current assets, or other factors that have historically been used by the financial industry and that have correlated with reduced access for people of color.

Proposed Products and Services

In light of these gaps, the MFC proposes to provide the following products and services to meet market demand:

Table 2. Local Enterprise Products and Services

Need	Solution
Growth capital between CDFI cap and commercial bank minimum	Provide loans between $350,000 and $1 million to support businesses that are growing but still too small to receive adequate support from traditional banks.
Startup capital	Provide microloans between $50,000 and $100,000 for entrepreneurs and business owners in early stages.
Lines of credit	Provide line of credit servicing for businesses, especially those whose accounts receivable are on longer terms and whose accounts payable are on shorter terms (for example, construction businesses) to provide liquidity for immediate needs.
Credit enhancement to serve customers perceived as riskier	Establish a loan loss reserve fund for CDFIs to extend more loans to nontraditional borrowers who may lack standard credit indicators.
Marketing funds	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners.

Green Investments and Environmental Justice

Lending Needs

San Francisco has a long history of climate action, having reduced local greenhouse gas (GHG) emissions by 41% since 1990. Despite these advances, more work is needed. As of 2019, the City emitted nearly 5 million metric tons of carbon dioxide (MMT CO_2e), of which 47% were from transportation-related activities and 41% were from building operations.[25] The City has taken a bold step forward in committing to net-zero emissions by 2040 through its policy-setting 2021 Climate Action Plan, specifically highlighting five primary emitting activities to prioritize (see Figure 4).

25 San Francisco Climate Action Plan, 2021.

Figure 4. Pillars of the San Francisco Climate Action Plan

Source*: City of San Francisco Climate Action Plan, 2021.*

The 2021 Climate Action Plan advances several strategies in support of this ambitious goals; however, their implementation will require significant funds. In April 2021, the City's Budget and Legislative Analyst's Office estimated the full electrification of the city's housing stock to cost between $3.5 and $5.9 billion. Meanwhile, the San Francisco Metropolitan Transportation Agency (SFMTA) estimated planned transit system expansion to cost $10 billion. Summarizing these and other costs, the University of California, Berkeley's Center for Law, Energy, and the Environment (CLEE) estimated in November 2022 that implementing the Climate Action Plan could require up to $21.9 billion.[26] While federal, state, and private funds will be committed to this effort, the magnitude of the demand indicates a significant need that the MFC could address.

Although several City, CFI, and CDFI programs exist, individual loan amounts and annual volumes are low in the context of a growing appetite for implementing green solutions for businesses, building- and homeowners, and individuals. Challenges related to green financing include, but are not limited to, the following:

[26] https://www.law.berkeley.edu/wp-content/uploads/2022/11/Funding-San-Francisco-Climate-Action-Nov.-2022.pdf

- Climate change solutions require long-term financing; many public infrastructure projects are operating “hand-to-mouth” and receiving one-year grants or receiving funding from the City’s annual budget, but most desired solutions and change would require long-term financing.
- Zero-emission appliances rules and even larger decarbonization efforts focused on green energy generation will require large financial investments.
- Short-term loans, smaller loans and credit lines are needed to help finance initial project costs.
- While the structure of federally funded green finance in San Francisco has yet to be defined, there will likely be a need for co-financing for programs supported by the federal Greenhouse Gas Reduction Fund program created by the Inflation Reduction Act.

Proposed Products and Services

In light of these gaps, the MFC proposes to provide the following products and services to meet market demand:

Table 3. Green Investments and Environmental Justice Products and Services

Need	Solution
Short-term debt for building electrification	Provide affordable, short-term financing for building- and homeowners to electrify appliances (water heaters, furnaces, etc.), specifically targeting low-income communities.
Public funding and patient capital for pollution cleanup	Provide longer-term (3-10 years) and low-interest loans to finance long-term infrastructure projects for environmental remediation.
Subsidy and finance for electric vehicle (EV) infrastructure	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure.
Tax credits for solar and storage	Leverage federal tax credits to support solar and storage in low-income communities.

B. Organizational Structure

The MFC will be a ____________________ corporation as permitted under California law. MFC will not have a holding company structure.

Note: The City should identify legally permissible form for the MFC.

C. Affiliate Transactions

There are no affiliate companies of the MFC and no affiliate transactions are contemplated at this time. The MFC does not anticipate making any Regulation O loans or extensions of credit.

Initially, MFC does not intend to form subsidiaries or service corporations. However, if the MFC identifies a business segment that it would like to pursue as subsidiary or service corporation under the MFC during its first three years of operation, the MFC will seek prior regulatory approval for such subsidiary or service corporation.

D. Present Condition

The MFC is not yet an operating company. The resources needed to organize The MFC have not yet been contributed by the City and County of San Francisco. There are currently no operating companies, no office networks, staff, or customer base. Following is a list of strengths and weaknesses of the proposed MFC.

Strengths

- <u>Board and Management:</u> Experienced Board and Management with backgrounds in finance working with CFIs, CDFIs and other local financial entities. The Board and Management will be supported by a MFC Oversight Commission that will provide advisory services to the MFC Board and Management and assist in marketing the MFC within the market area.
- <u>Marketing and Business Plan Implementation:</u> The MFC will be focused in only a few areas of lending and will concentrate on working with CFIs and CDFIS to expand the marketing efforts to the targeted clientele.
- <u>Market Opportunity:</u> The focus of the lending products is designed to provide financing to businesses and residents of San Francisco that do not have easy access to credit and will enhance the economic growth of the city.
- <u>Competitive Opportunity:</u> The MFC will work with local CFIs and CDFIs to expand credit within the market. While the major banks will continue to provide financial products in the market, the major banks are not looking at long term partnerships or advancing credit to support a significant percentage of businesses and residents within the market. The San Francisco market can support The MFC as well as other financial entities.
- <u>Capital:</u> The MFC will be capitalized with a minimum of $20 million in initial capital. This level of capital is deemed to be sufficient to support the growth of The MFC to achieve acceptable operations within the three-year initial period.

Weaknesses

Note: the weaknesses of the proposed MFC are typical to any business startup and particularly for any de novo financial institution:

- No prior operating history and the expectation of initial operating losses.
- Adverse changes in local economic conditions may negatively affect profitability.
- Economic downturns could produce losses in the loan portfolio, thus impairing earnings.
- Competition from other financial institutions and from non-bank entities could adversely impact the performance of the MFC.
- Fluctuations in interest rates may impact earnings.
- Loss of senior executive officers could adversely impact the MFC.
- Inability to raise funds through other sources could negatively impact liquidity or raise the MFC's funding costs.
- Existing and future increasingly complex and extensive compliance and regulatory requirements may add to overhead costs and reduce profit, especially in the early years of operation.
- Earthquakes or other natural disasters could adversely affect the MFC's operations and those if its clients.

- Terrorist attacks, cyber threats, and public health emergencies may affect the economy and the MFC operations.

E. Location

In order to efficiently serve the intended businesses and individual customers, the MFC proposes to operate from a single office in San Francisco. To reduce operating costs, the MFC does not anticipate opening branches.

III. Marketing Plan

Overview

Based on the current overall economic, local market, and competitive data, the MFC has reasonable prospects to achieve its financial objectives.

The "Market" section of the Plan presents data in support of the conclusion that the MFC's proposed target market presents a considerable opportunity for the MFC to generate its contemplated volume of loans.

The "Economic Component" section of the Plan examines the national and local economic outlook, demonstrating the economic environment in which the MFC plans to start its operation.

The "Competitive Overview" section of the Plan analyzes the MFC trends in San Francisco, evidencing the need for a local institution to offer the level of service lacking at the large out of area institutions currently dominating the local banking industry.

Business Development Strategy

A. Product Strategy

1) Products and Services

The MFC proposes to provide the products and services described in "II.A. Business and Market Niche." A comprehensive list is shown in Table 4.

Table 4. Consolidated List of Proposed MFC Products and Services

Lending Area	Need	
Affordable Housing Development and Homeownership	**Patient and equity-like capital**	Provide longer-term (10+ years) and low-interest (no more than 2 percent) loans—potentially structured as equity equivalent products—to CFIs and CDFIs to finance long-term projects.
	Short-term financing	Provide pre-development loans to pay for a wide variety of expenses such as architectural and engineering fees, acquisition costs, among others.
	Gap financing	Help developers address mismatches between costs and revenue and to cover unexpected increases in labor and material costs through gap financing.

	Credit enhancement to serve customers perceived as riskier	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators.
	Guarantees	Set up guarantees—construction loan guarantees, completion guarantees, operating deficit, and tax credit—for affordable housing developers.
	Alternative products	Support the creation of alternative products and markets for less-common structures like land banks, community land trusts, and tenancy-in-common.
Local Enterprises	**Growth capital between CDFI cap and commercial bank minimum**	Provide loans between $350,000 and $1 million to support businesses that are growing but still too small to receive adequate support from traditional banks.
	Startup capital	Provide microloans between $50,000 and $100,000 for entrepreneurs and business owners in early stages.
	Lines of credit	Provide line of credit servicing for businesses, especially those whose accounts receivable are on longer terms and whose accounts payable are on shorter terms (for example, construction businesses) to provide liquidity for immediate needs.
	Credit enhancement to serve customers perceived as riskier	Establish a loan loss reserve fund for CDFIs to extend more loans to nontraditional borrowers who may lack standard credit indicators.
	Marketing funds	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners.
Green Investments and Environmental Justice	**Short-term debt** for building electrification	Provide affordable, short-term financing for building- and homeowners to electrify appliances (water heaters, furnaces, etc.), specifically targeting low-income communities.
	Public funding and patient capital for pollution cleanup	Provide longer-term (3-10 years) and low-interest loans to finance long-term infrastructure projects for environmental remediation.
	Subsidy and finance for electric vehicle (EV) infrastructure	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure.
	Tax credits for solar and storage	Leverage federal tax credits to support solar and storage in low-income communities.

Initially, the MFC does not plan to have any subsidiary operations.

2) Product Offering Methods

The following will serve as the MFC's primary distribution channels:

- The MFC will establish partnerships with CFIs and CDFIs to identify customers. This network of local organizations, in addition to programs managed by City departments, will provide referrals for loans and other products. Additionally, the MFC will work directly through this network to purchase assets from CFI and CDFI balance sheets, make loan participations with them, and make loans and offer other financial products directly to them. The MFC will invest resources prior to opening to ensure that it has a robust network of partner financial institutions to generate the required loan volume from the MFC's commencement of operations.

- The MFC will have an appropriate operating infrastructure and control mechanism in place prior to the rollout of products and services. The costs of rolling out products and services are tied to the infrastructure, core data processing requirements and capabilities, furniture, fixtures, and equipment, as well as staff costs. These costs are captured in the pre-opening costs, which represent the expense of establishing the MFC and introducing the MFC's products and services.
- The MFC will establish strategic alliances and a referral program with third parties to assist its customers in obtaining comprehensive solutions to their banking needs. The MFC will create a Vendor Management Policy that will serve as a guide in the evaluation, selection, and management of third-party vendors.

3) Secondary Market Activity

The MFC will buy and sell loan participations with CDFIs and CFIs but at this time there will be no hedging or loan securitization activity. The MFC also does not expect to use forward take-outs. The MFC will work with CDFIs and CFIs related to servicing of the various loans that are on the books of the MFC.

4) Primary Sources

Marketing/Promotional activities

The MFC's marketing and promotional activities will include building a reputation for the provision of relevant products and services and responsive support to the identified target markets; and working closely with CFIs and CDFIs within the market.

Because communities of color harbor mistrust of financial institutions due to pervasive discriminatory lending, the MFC and its partners (i.e., CFIs and CDFIs) should perform targeted outreach to Black, Brown, and women entrepreneurs to rebuild confidence and encourage participation.

Advertisement

In addition to a web presence, to augment its business development efforts, the MFC may, on a limited basis, run occasional print ads in local newspapers featuring its products, partnerships with local CFIs and CDFIs, and testimonials.

5) e-Commerce

Currently, the MFC has no plans to enter into any arrangements with e-commerce financial product platforms to market or deliver its services through the Internet.

B. Market Analysis

1) Target Market

The MFC will target three specific markets: affordable housing development and homeownership; local enterprises (small business); and green investments and environmental justice. As described in "A. Product Strategy," these markets have hundreds of millions if not billions of dollars in unmet demand.

The geographic focus of the MFC will be on the region defined by the boundaries of the City and County of San Francisco. The MFC will serve projects or businesses located within, and persons residing in, the City and County boundaries.

2) Target Market Demographics

Table 5. City and County of San Francisco Demographics

Demographic Statistics	San Francisco County, California	
Total Population	**865,933**	
Age		
0 - 14 Years	100,691	11.6%
15 - 24 Years	76,273	8.8%
25 - 64 Years	551,016	63.6%
65 and Older	137,953	15.9%
Race		
White Alone	376,056	43.4%
Asian Alone	297,680	34.4%
Two or More Races	72,602	8.4%
Some Other Race Alone	67,137	7.8%
Black or African American Alone	45,135	5.2%
American Indian and Alaska Native Alone	4,212	0.5%
Native Hawaiian and Other Pacific Islander Alone	3,111	0.4%
Hispanic or Latino by Race		
Not Hispanic or Latino:	732,692	84.6%
White Alone	339,050	46.3%
Asian Alone	295,385	40.3%
Other Races	98,257	13.4%
Hispanic or Latino:	133,241	15.4%
Other Races	93,940	70.5%
White Alone	37,006	27.8%
Asian Alone	2,295	1.7%
Household Income (In 2021 Inflation Adjusted Dollars)		
Households:	361,222	
Less than $10,000	16,285	4.5%
$10,000 to 49,999	72,570	20.1%
$50,000 to 99,999	62,678	17.4%
$100,000 to 149,999	53,873	14.9%
$150,000 or More	155,816	43.1%
Educational Attainment for Population 25 Years and Over		
Population 25 Years and Over:	688,969	
Less than High School	77,300	11.2%
High School Graduate (Includes Equivalency)	78,359	11.4%
Some College	123,258	17.9%
Bachelor's Degree	243,795	35.4%
Master's Degree	110,417	16.0%
Professional School Degree	35,420	5.1%
Doctorate Degree	20,420	3.0%

Source: U.S. Census Bureau. (2022). 2017-2021 American Community Survey 5-year Estimates.

Table 6. City and County of San Francisco Employment by Industry

Total Employment by Industry Sector		
Professional, Scientific, and Technical Services	143,123	18.6%
Health Care and Social Assistance	92,724	12.0%
Accommodation and Food Services	82,620	10.7%
Educational Services	55,754	7.2%
Information	50,615	6.6%
Finance and Insurance	48,555	6.3%
Retail Trade	44,277	5.7%
Administration & Support, Waste Management and Remediation	43,102	5.6%
Other Services (excluding Public Administration)	31,380	4.1%
Transportation and Warehousing	30,349	3.9%
Public Administration	28,833	3.7%
Construction	24,574	3.2%
Management of Companies and Enterprises	21,334	2.8%
Arts, Entertainment, and Recreation	18,083	2.3%
Real Estate and Rental and Leasing	16,182	2.1%
Wholesale Trade	14,801	1.9%
Manufacturing	12,365	1.6%
Utilities	11,960	1.6%
Agriculture, Forestry, Fishing and Hunting	256	0.0%
Mining, Quarrying, and Oil and Gas Extraction	7	0.0%

Source: U.S. Census Bureau. (2021). Longitudinal Employment-Household Dynamics.

C. Economic Component

1) Economic Forecast

Note: To be completed by the City.

2) Implications for Lending

Refer to the Executive Summary and the "Lending Needs & Proposed Services" section for a detailed overview of needs for the MFC's products and services that will form the baseline demand in future economic scenarios.

D. Competitive Analysis

1) Potential Competition

The MFC will face competition from various financial institutions including national, regional, and community banks operating within the MFC's market area, as well as non-bank institutions including savings associations, credit unions and other financial intermediaries. The MFC could also face competition from fintech companies as those companies offer products and services traditionally provided by banks either directly or through partnerships with other banks. The MFC will focus efforts on working with local CDFIs and CFIs and that the products and services are to be designed to coordinate with CFIs and CDFIs

IV. Management Plan

A. Introduction

The governance structure outlined within this Plan seeks to establish an entity that is accountable to the goals, values, and communities of the City and County of San Francisco and that will uphold those goals through effective and independent corporate and financial management. This governance structure seeks to ensure that the MFC is held accountable to the high standards demanded for an institution that is capitalized and funded by City funds. As a result, the MFC's proposed governance seeks to make the entity independent from political influence while enabling it to fulfill its public mandate.

Mission

The MFC will promote an economy that upholds equity, social justice, and ecological sustainability.

Principles

- Public Ownership: Remain a publicly owned entity that reinvests profits in support of its mission.
- Local Control: Operate for the benefit and on behalf of the communities of San Francisco.
- Community Wealth Building: Promote community ownership and community wealth building.
- Public Welfare and Restorative Finance: Invest to enhance the welfare of all the people of San Francisco, especially communities underserved by mainstream commercial banks and that have suffered from the historical legacy of wealth disparities and harmful social, economic, and environmental practices.
- Cooperation: Cooperate with existing community institutions and organizations, strengthening the lending capacity of credit unions, community development financial institutions, and community financial institutions by partnering, rather than competing, with them on financial products and services.
- Accountability and Transparency: Ensure community oversight, accountability, and transparency in MFC operations.
- Indigenous Rights: Act within a reparations framework to honor its presence on Ohlone land, protect sacred sites, support Indigenous land trusts, and uphold Indigenous people's right to Free, Prior, and Informed Consent.
- Harm Avoidance: Refrain from investing in sectors that exacerbate negative socioeconomic and environmental outcomes, including predatory lending, fossil fuels, tobacco, firearms, other weapons, prisons and detention centers, and businesses holding a record of labor law violations.

B. Governance Model

The City has evaluated various public bank governance models from around the world. Based upon this research and global best practices (see a case study below), the City proposes a two-tier governance model. The top tier of MFC governance is the seven-member MFC Oversight Commission ("MOC") and the second tier is a three-member Board of Directors ("Board"). The MOC advises the Board but does not make any decisions related to the operation of the MFC with the exception of the election of the Board, serving in a traditional shareholder role. The Board oversees the MFC's operations, selects the initial management team, and oversees the execution of the business plans.

To fulfill the principle of local control, MOC and Board members will be required to be residents of or conduct business within San Francisco. Waivers on this requirement will be made available in exceptional circumstances.

Case Study: Banco Popular y de Desarrollo Comunal, Costa Rica

- Year established: 1969
- Total assets: $6.24 billion (in 2020)
- Return on assets: 1.35%
- Net profit (after tax): $62 billion (in 2020)

The Popular and Community Development Bank ("Banco Popular") is a public bank in Costa Rica that combines retail and development functions. It is known for its bottom-up approach to corporate governance, which enables it to internalize popular demands and operational oversight in legally binding and public-interest ways. This approach contributes to the bank's credibility and effectiveness within Costa Rica's society and economy.

Despite not being conceived initially as a public bank with a governance structure in which Costa Rica's constituents could have direct say, the Banco Popular underwent a democratization process in the early 1980s to become more representative and connected to citizens in the working class. The most notable effort was the formation of the Bank's Assembly of Working Men and Women as the highest representative decision-making body.

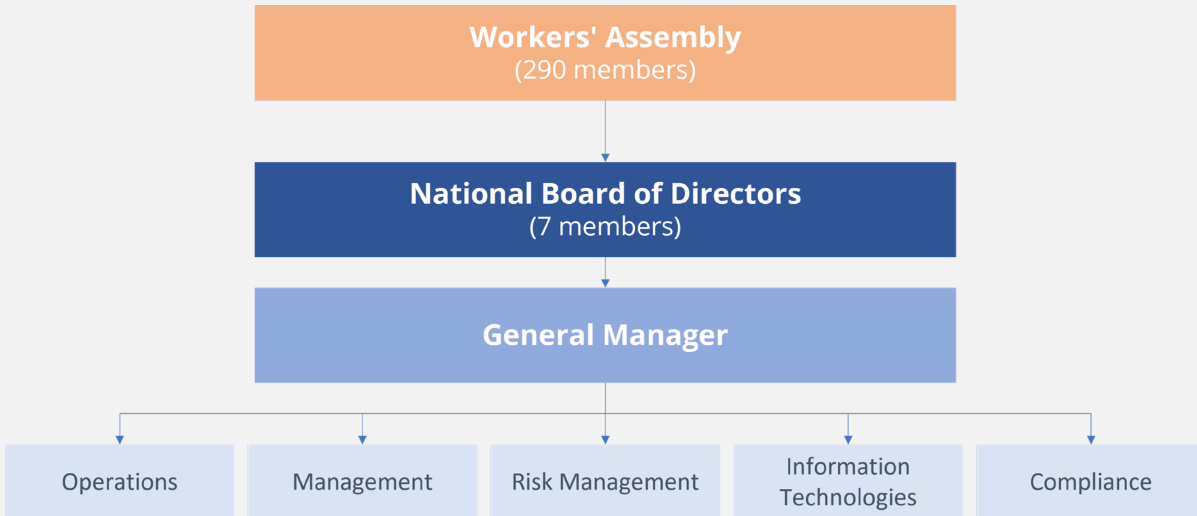
The Workers' Assembly was created to be legally responsible for giving general direction to the bank's activities. It is responsible for appointing representatives to the bank's National Board of Directors, reviewing audit reports, integrating recommendations against discrimination, and providing democratic direction and accountable oversight to the bank. The Workers' Assembly comprises 290 representatives from various social and economic sectors, including artisans, cooperatives, trade unions, elected every four years from a pool of social organizations registered with the Ministry of Labor. This selection process allows the assembly to represent about 1.2 million account holders within the bank, equal to about 20% of Costa Rica's population.[27]

In addition to this decision-making body, the Bank also has a National Board of Directors (NBD) as the highest administrative unit in charge of its day-to-day operations. It is composed of 7 members, 4 of which are designated by the Workers' Assembly (at least two must be women), and three are appointed by the Government Executive of Costa Rica (at least one must be a woman). The NBD is subordinate to the Workers' Assembly.

The Bank's commitment to democratic governance goes beyond creating decision-making and management bodies and strives to hear public demands to guide banking operations. For example, in 2008, Banco Popular conducted a nationwide consultative process, which resulted in the creation of five new guidelines for the Workers' Assembly. These guidelines reflected the bank's competitive market operations and social developmental role, including promoting a social economy driven by values of solidarity and the primacy of people over capital, offering quality services, competitive management operations, regional and local development, and being an entity for national development.

[27] Marois, T. (2021). *Public banks: Decarbonisation, definancialisation and democratisation*. Cambridge University Press.

Figure 5. Governance Structure of the Banco Popular



The MOC Structure and Committees

The MOC will be composed of an inclusive and diverse mix of San Franciscan stakeholders, reflect the racial, ethnic, economic, and gender diversity of San Francisco. The MOC will act as the MFC's shareholder body.

Five members of the MOC shall be appointed by the Board of Supervisors and two shall be appointed by the Mayor. MOC members will be appointed for a four-year term with a staggered approach. The initial MOC will have two MOC members appointed for a one-year term, two appointed for a two-year term, two appointed for a three-year term and one appointed for a four-year term. This staggered approach will provide for consistency in the MOC and each member of the MOC will be entitled to serve two terms before being termed out.

All seven members of the MOC shall be subject to a public hearing and vote by the Board of Supervisors. All future appointees to the MOC shall also be subject to an initial public hearing. In addition, members of the MOC shall not be subject to removal by their respective appointing officers.

The MOC shall focus its work into three committees that will provide advice to the MFC Board: Lending & Sustainability, Ethics & Equity, and Community Outreach. These are advisory roles to the MFC and will assist the MFC Board in modifying the Business Plan.

The MOC will initially meet monthly and reconsider the frequency of meetings once the MFC has been operating for one year.

The MFC Board is ultimately responsible for managing the activities of the MFC and has fiduciary duties including answering to regulators. However, as a means of providing communication and transparency, two members of the MOC will be able to attend meetings of the MFC Board.

The MOC Committees and Responsibilities are as follows:

Lending & Sustainability

- Advise on the framework for the MFC's loan policy, consistent with the MFC's lending priorities and prohibitions, as well as applicable regulatory requirements. This framework shall be further evaluated and finalized by the MFC Board. The intended framework should reflect the Mission and Principles described above.

Ethics & Equity

- Monitor that the operations of the MFC are conducted in accordance with the governance documents, appoint external auditors to audit the MFC's financial statements, oversee the performance of audits.
- The Chair of the Ethics & Equity Committee accepts information on MOC members' and Directors' conflicts of interest.

Community Outreach

- Publish and share an annual report in an accessible, visual, multilingual format.
- Hold annual town hall events to present MFC key lending and investment areas alongside equity metrics, for example, race/ethnicity, gender, migration status, neighborhoods and communities served, and community impact. Provide space for the public to comment and advise the MOC on how to fulfill the MFC's mission to serve local communities.
- Organize focus group sessions every two years around specific priority themes, such as lending and investment areas, that convene community experts to help comment, problem solve, provide analysis, and make recommendations.
- Hold informational recruitment events to recruit potential members of the MOC.

MOC members will be required to execute a Job Description and Qualifications, a copy of which is attached at Exhibit A to this Governance Plan. In addition, MOC members will be subject to MFC's Code of Conduct Policy.

The MFC Board of Directors, Board Committees and Management Structure

The MFC is being organized as a finance corporation. The MFC Board will initially consist of three directors, the President & Chief Executive Officer, and two outside directors. The outside directors will include individuals with banking/bank directorship, CDFI experience and/or professional/business experience, primarily in the MFC's lending areas. The executive management team will include individuals that possess significant experience in CFIs, CDFIs and managing business lines.

Governance

Outside directors will include individuals with prior board experience or subject matter expertise in a lending focus of the MFC. The proposed outside Board members will all be experienced businesspeople and will have sat or sit on corporate or non-profit boards.

MFC Directors will be required to execute a Job Description and Qualifications, a copy of which is attached at Exhibit B to this Governance Plan. In addition, MFC Directors will be subject to MFC's Code of Conduct Policy.

Proposed Directors

The following table lists the desired and expected experience of the proposed directors.

Role	Qualifications
Chief Executive Officer	Experienced CEO of a CFI, CDFI, or regional bank C-suite officer.
Outside Director 1	Experienced CFI or CDFI director, C-suite officer, or CDFI officer with financial expertise.
Outside Director 2	Experienced CFI or CDFI director, C-suite officer, or CDFI officer with financial expertise.

Board Committees

The following table provides a list of Board committees with their core functions and proposed composition. An outside independent director will serve as the Board's Chairperson.

Committee	Core Function	Proposed Membership*
Audit/Risk Committee	Oversee the audit function. Monitor and set policy around operational, information security, market, and financial and credit risks. Oversee compliance and ERM areas.	2 Outside Directors CEO is management liaison
Loan Committee	Set credit policy and monitor management of credit risk.	CEO/CCO and 2 outside directors

Committee	Core Function	Proposed Membership*
HR/Governance Committee	Oversee HR/Compensation policies and procedures; Ensure appropriate corporate governance.	2 outside directors CEO is management liaison

** The executive officers will participate in all committees as needed.*

The following section provides summaries of duties and meeting frequency of each committee. In the initial period of the MFC's operations, the Board-level committees are likely to meet more frequently than the meeting frequency detailed in the following descriptions. Initially the committees will meet to review and refine the initial sets of policies and procedures, as recommended by management. The committees will evaluate and recommend monitoring systems and reports as a way of ensuring that systems are in place and are closely monitored to review reports and schedules associated with the relevant committee duties.

Audit/Risk Committee

(Meets at least quarterly)

Audit Duties

- Fulfill duties delineated in the MFC's Audit Policy.
- Serve as an independent body reporting to the full Board.
- Monitor management performance in the correction of deficiencies noted in an audit or regulatory examination.
- Ensure financial risk management functions are independent and communicate risk management concerns to the full Board.
- Review all operations, accounting, and administration policies prior to submission to the full Board.
- Formulate compliance and enterprise risk management plans.
- Monitor systems to ensure compliance.
- Establish overall risk tolerance for the MFC.
- Ensure operational risk management functions are independent and communicate risk management concerns to the full Board.
- Determine frequency of employee and Board training.
- Review all operations and administration policies prior to submission to the full Board.

Loan Committee

(Meets at least monthly)

Duties

- Establish the credit risk tolerances and ensure that an adequate reserve has been provided against potential losses in the credit portfolio.
- Require that management report on the handling of credit risk and their compliance with Board decisions regarding acceptable levels of risk.
- Review and recommend changes to Credit Policies and Procedures.
- Review and approve the delegation of loan approval authorities, as appropriate, if such approval is consistent with the Credit Policy and deemed a non-material change by the Committee.
- Require that management report on the monitoring of loan officer compliance with lending policies.
- Verify that management follows proper procedures to recognize adverse trends, identify problems in the loan portfolio and maintain an adequate allowance for loan and lease losses.
- Meet as needed to review loan request and make credit decision on loans requiring Board Approval in accordance with the MFC's Credit Policy.

Human Resources/Governance Committee

(Meets at least quarterly)

Human Resources Duties

- Review and approve management's recommendations for title, promotion, salary, and bonus for the MFC's executive officers and allocations for other employees of the MFC.
- Establish, review, and monitor personnel policies of the MFC.
- Review and approve incentive compensation plans and other employee benefits and similar plans.
- Review performance evaluations of executive officers.

- Review and oversee total compensation and personnel practices to ensure that the MFC is competitive and meets all regulatory requirements.

Governance Duties

- Review and advise with respect to issues and policies affecting the governance of the MFC in coordination with the MOC.
- Conduct the process of director independence, evaluation, self-assessment, and selection for recommendation for appointment to the Board and its committees.
- Conduct succession planning in accordance with the MFC's Succession Plan for the role of the Chief Executive Officer, and in consultation with the Chief Executive Officer concerning other appointed executive officers.
- Review and recommend director candidates for review and approval of the MOC.

Organizational Structure/Officers

The MFC's organizational structure will be relatively flat with the Controller and the Chief Credit Officer reporting directly to the Chief Executive Officer.

Proposed Executive Officers

The MFC will be managed by a qualified Executive Management team comprised of experienced bankers with extensive commercial banking experience and proven skills in credit analysis and administration, financial analysis and risk management, regulatory compliance, personnel management, and public service experience.

The Executive Management team includes the Chief Executive Officer, Chief Credit Officer, and Controller. These individuals will be experienced lenders or financial parties.

The following is a table listing the summary biographies of the proposed executive officers, followed by a more detailed biography of each officer.

Note: To be completed by the City once management has been identified.

PROPOSED EXECUTIVE OFFICERS SUMMARY BIOGRAPHIES

Name	Position	Experience
To be confirmed at a later stage.	CEO	Experienced CEO of a CFI, CDFI, or regional bank C-suite officer
To be confirmed at a later stage.	CCO	Formerly CCO of a CFI or Regional Bank
To be confirmed at a later stage.	Controller	Formerly Controller or CFO of a CFI, CDFI, or Regional Bank

Duties of the Executive Officers

The following are the primary duties of the Executive Management team:

Duties of the Chief Executive Officer

- Responsible for the day to day and overall management of the MFC to adhere to the MFC's Business Plan.
- Ensure the overall safety, soundness, and security of the MFC.
- Maintain the overall adequacy and soundness of the organization's financial structure, especially relating to operational issues.
- Participate in strategic planning and provide advice on the effective ways to meet the growth and earnings goals and objectives of the MFC.
- Provide leadership in establishing current and long-range objectives, policies, and plans, subject to the approval of the Board.
- Coordinate the Board's responsibility to monitor adherence to the business plan, including review of performance to budget and an annual strategic review.
- Direct the overall marketing and business development activities of the MFC.
- Responsible, with the Chief Credit Officer, for overseeing the loan portfolio and credit quality.
- Coordinate communication throughout the organization.
- Act as the principal representative of the MFC with the press, major customers, community and industry associations and other businesses.
- Meet with major customers, MOC, City and County of San Francisco, the financial community, and the public.
- Keep abreast of changes in the market, legislative issues, and the current competitive practices with the financial industry.
- Directly supervise senior officers.
- Serve as a member of the Board and as a member of Board committees as determined.
- Provide coordinating role between directors and management for all Board and Board committee activities as well as any other director-related matters.
- Provide on-going employee training to business development and customer-facing staff to ensure that the customer banking experience meets the vision and expectation of the MFC, its directors and management.
- Participate in community and business-related organizations and attend major civic events to maintain visibility throughout the community and develop new customer relationships.
- Help establish company brand and image.
    - Participate in the development of new products and services for each business line of the MFC.
- Identify target markets that will be receptive to the products and services offered by the MFC.
- Develop marketing campaigns and associated collateral materials. Track results of the marketing campaigns.
- Perform any other duties specified by the Board.

Duties of the Controller

- Manage and ensure the quality of the MFC's financial and accounting functions, including:
    - General accounting and financial reporting
    - Internal controls and risk management
    - Budgeting and forecasting
    - Prepare reports for monthly director meetings.

    - With the Chief Executive Officer, present and interpret the major financial reports for directors, the MOC and the city and county.
    - Prepare material for MFC's financial audit firm and respond to all audits.
- Recommend and prepare policies and procedures for proper financial control of the MFC.
- Oversee the MFC's vendor management program.
- Interact with other senior officers on personnel policies and practices.
- Working closely with the CCO, reviewing the allowance for loan and lease loss analysis to ensure compliance with currently promulgated GAAP.
- Provide a consulting and analytic resource on a wide variety of financial and planning matters, including the structuring of proposed transactions, product development, and business opportunities.

Duties of the Chief Credit Officer

- Responsible for the overall quality and diversity of the loan portfolio.
- Develop and monitor loan policies and loan concentration limits.
- Make decisions on both administrative and operational matters pertaining to lending.
- Serve on the Loan Committee and act as a principal spokesperson for the lending function.
- Supervise the collection of non-performing and charged-off loans and manage OREO properties to disposition.
- Work closely with legal counsel to resolve litigation expeditiously while minimizing legal and collection expenses.
- Prepare monthly and quarterly lending activity and portfolio condition reports for Board of Directors, MOC and city and county agencies.

Prepare the quarterly allowance for loan and lease loss analysis and work closely with the Controller to ensure compliance with currently promulgated GAAP.

- Oversee the credit staff and implement training programs on credit administration and the approval process.

MFC Board and MOC Member Training

Training will be scheduled at regular MFC Board meetings, with appropriate subjects such as board governance, operational regulations, and related topics of importance to general board education. Training will be conducted by management and other qualified professionals. Other training will be opportunistic and dependent upon the timing of appropriate training offered by trade associations, and other groups. MOC members will also be able to attend training sessions.

<u>Compliance Program:</u> Training will be conducted to address MFC compliance issues, such as the general laws and regulations impacting the industry, as well as discussions on the responsibilities of management, the Board, and Board committees.

<u>Lending Regulations:</u> Sessions will be scheduled to focus on lending regulations, including disclosure requirements and the avoidance of common violations. This program will cover consumer laws an analysis of credit risk, loan approval limits, and underwriting criteria.

<u>Board Governance and Practices:</u> Training will be conducted on the following practices: fiduciary duties and responsibilities, corporate governance and best practices, board deliberative and reporting processes,

accurate and complete meeting recordation, minute preparation, review and preservation, and related matters. The collective experience on the board in terms of banking and other board experience will be an invaluable asset in the development and execution of training programs.

V. Financial Management Plan

Financial Description

The financial projections assume that Municipal Finance Corporation ("MFC") will be capitalized with $20 million in initial capital, a level is considered more than adequate to provide for the anticipated organizational expenses and support MFC's operation, enabling MFC to grow into its infrastructure and achieve profitable operations within its first three years of operation. The initial capitalization is also deemed adequate for legal lending purposes, allowing MFC to meet the credit needs of its intended target borrowers.

Based on the baseline model in this plan, MFC is projected to reach total assets of nearly $70 million by the end of its third year of operation and achieve annual breakeven in the third year of operation. The following table summarizes MFC's projected operating trends for the first three years of operation.

MUNICIPAL FINANCE CORPORATION (PROPOSED)
Summary of Business Plan Trends
(Dollars in thousands)

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Total Assets	25,258	48,837	68,843
Gross Loans	20,040	41,034	59,948
Equity Capital	19,170	18,727	18,732
Net Income (Losses)	(830)	(443)	4
Net Interest Margin	5.04%	4.29%	3.46%

Capital and Earnings

1) Capital Goals

The MFC will be initially capitalized with $20 million which is sufficient to cover the projected pre-opening organizational expenses (salaries, consulting, legal, insurance, etc.) and capitalized assets and provide a foundation to support the growth contemplated by the business plan in a safe and sound manner.

The MFC plans to have sufficient initial capital to fully support the level of anticipated balance sheet growth. This will provide the footings for the MFC to achieve monthly profitable operations by the end of the third year to generate earnings sufficient to support the future growth of the MFC.

2) Earnings

The following table summarizes the expected earnings goals of the MFC during the first three years of operation.

MUNICIAL FINANCE CORPORATION (PROPOSED)

Profitability Measurements

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Return on Average Assets	(3.63%)	(1.17%)	0.01%
Return on Average Equity	(4.24%)	(2.34%)	(0.02%)
Net Interest Income/Average Assets	4.68%	4.16%	3.48%
Non-Interest Income/Average Assets	0.04%	0.04%	0.03%
Non-Interest Expenses/Average Assets	6.16%	3.98%	2.70%
Net Interest Margin	5.04%	4.29%	3.46%
Efficiency Ratio	130.44%	94.90%	77.13%

It is anticipated that the MFC will reach monthly profitability during the end of its third year of operations. Prior to reaching monthly profitability as the MFC is developing and growing earning assets the volume of earning assets and the corresponding net interest income and other revenues will not be sufficient to cover overhead costs, including the up-front costs of putting in place the appropriate infrastructure (people, premises, and systems) that are required to support its operations in a safe and sound manner as contemplated in its business plan. Thereafter, it is expected that the MFC would generate consistently increasing profits to support the contemplated balance sheet growth.

Business generation, services offered, and expense control will be key to reaching the MFC's earning goals. The MFC is expected to work closely with CFIs and CDFIs to build market share and generate interest income by providing the core products to its targeted clients. The MFC will utilize its experienced staff effectively to achieve its earning goals, hiring bankers and support staff who have implemented plans similar to the MFC's in its target market area.

The MFC will proactively manage expenses in order to operate within budget.

3) Capital Adequacy

The MFC's proposed capital structure is adequate for the projected internal and external risks, as well as the planned fixed assets expenditures, technology, organizational, and other expenses. The planned initial capitalization will also be sufficient to support the credit needs of the MFC's market.

The MFC will continually measure and assess trends in risks that may adversely impact capital levels. It is the MFC's goal to address any emerging risks on a proactive and comprehensive basis, in order to avoid rapid deterioration in asset quality, profitability, and overall operations, and ultimately maintain targeted capital levels.

4) Allowance for Loan and Lease Losses

It is the policy of the MFC to maintain at all times a reserve for potential loan losses that is adequate to absorb all estimated losses in the MFC's loan portfolio. The existence of an effective loan review system that identifies credit quality problems in an accurate and timely manner is key to the effectiveness of this policy. The loan review system will respond to internal and external factors affecting the MFC's credit risk and will ensure the timely charge-off of loans, or portions of loans, for which a loss has been confirmed.

The MFC will establish a systematic methodology for determining the Allowance for Loan and Lease Losses ("ALLL") based on both actual, historical loss data as well as qualitative considerations that may affect the loan portfolio and in conformity with CECL. The MFC will document the supporting rationale employed in estimating the appropriate level of the ALLL, including the analysis of all significant factors affecting the collectability of the portfolio. It is the policy of the MFC to maintain an ALLL estimation process that is sound, well documented and based on reliable information and be of such quality that regulators, auditors, investors, and directors may rely on it.

It is noted that the de novo nature of the MFC precludes use of historical loss experience during the early stages of its existence, and so the methodology described below will be modified as necessary, and the use of peer group ALLL practices may be more prevalent in establishing an appropriate ALLL.

Specifically, the ALLL methodology will be designed to:

- Include a detailed analysis of the loan portfolio on a regular basis;
- Consider all loans (whether on an individual or group basis);
- Identify loans to be evaluated for impairment on an individual basis under SFAS No. 114 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under SFAS No. 5;
- Consider all known relevant internal and external factors that may affect loan collection;
- Be applied consistently but, when appropriate, be modified for new factors affecting collectability;
- Consider the particular risks inherent in different kinds of lending;
- Consider current collateral values (less costs to sell), where applicable;
- Require that competent and well-trained personnel perform analysis, estimates, reviews and other loan loss allowance methodology functions;
- Be based on current and reliable data;
- Be well documented, in writing, with clear explanations of the supporting analysis and rationale; and
- Include a systematic and logical method to consolidate the loss estimate and ensure the loan loss balance in accordance with GAAP.

The MFC may segment their loan and lease portfolios into as many components as practical. Each component would normally have similar characteristics, such as risk classification, past due status, type of loan, industry, or collateral. Segmentation is intended to allow for the estimation of inherent loss in pools of homogeneous loans based on historical losses.

The CCO will report to the Board of Directors on a quarterly basis. The quarterly review will include an analysis of portfolio trends, concentrations in the loan portfolio, and an evaluation of the local economy and other factors that could have an influence on the adequacy of the reserve. Upon such review, the Board of Directors will approve increases or decreases in the MFC's provision for loan losses in order to provide for an adequate balance in the loan loss reserve.

The review will take into account the following factors:

- An evaluation of the estimated future losses in all significant problem loans.
- Levels of, and trends in, delinquencies and non-accruals.
- The results of any independent review of loan portfolio quality.
- Trends in portfolio volume and terms of loans.
- Effects of any changes in lending policies and procedures, including those for underwriting, collection, charge-off and recovery.

- Experience, ability and depth of lending management and staff.
- National and local economic conditions and trends.

There is no fixed period of time that should be used in determining a historical average. During periods of economic stability, a relatively long period may be appropriate. However, during periods of significant economic expansion or contraction, the MFC may use a shorter historical time period in order to more accurately estimate the MFC's inherent losses in the current economic climate. Although historical loss experience provides a good starting point, the historical loss rate must be adjusted for current conditions and recent trends when estimating future losses. Management will consider the following qualitative factors when adjusting historical loss averages:

- Changes in the experience, ability, and depth of lending personnel.
- Changes in practice relating to underwriting, collection, and the loan review system.
- Changes in national, state, and local economic conditions.
- Changes in the nature of the portfolio and levels of concentrations.
- Changes in levels of classified loans.
- Changes in levels of delinquencies and non-accruals.

The MFC will reserve for unfunded commitments. Management will periodically analyze the actual usage of un-funded commitments for various pools of loans.

Problem Loan Reports on, at minimum, Pass-Watch, Special Mention, Substandard, and Doubtful credits will be reviewed by Credit Administration on a quarterly basis. As part of this process, the CCO will review the larger classified loans for possible specific allocations. Any specific allocation will be based on either a collateral valuation or an abnormal probability of loss in accordance with the MFC's impairment guidelines. The final level for the ALLL will be a combination of the MFC's general reserve and specific allocations.

The MFC will follow ASC 450-20 (formerly FAS 5) and ASC 310-10 (formerly FAS 114) and accounting rules and regulations which relate to the impaired status of certain loans, leases, and other assets. Impaired loans may be measured, either individually or in aggregate with other loans with similar risk characteristics, using one of three methods:

- The present value of expected future cash flows discounted at the loan's effective interest rate.
- The loan's observable market price.
- The fair value of the collateral if the loan is collateral dependent.

All impaired loans are to be reported at least quarterly to the Board.

Loans are to be charged off when deemed to be un-collectible and/or when continuing to carry them as an asset of the MFC is no longer considered prudent. This will include instances where loss exposure exists due to an inability to collect, protracted repayment, or lack of collateral coverage. Charge-offs are to be taken immediately upon the occurrence of one or more of the following events:

- A classification of "Loss" by internal or external loan review or by regulatory examiners.
- When the loan is considered a statutory bad debt in that principal or interest is past due for 180 days or more, unless the loan is "well secured" and "in the process of collection". Consumer installment loans shall be charged off when delinquent 120 days or more.

- The filing by the borrower of a voluntary or involuntary petition in bankruptcy of 90-day delinquent, unless the loan is well secured and in the process of collection.

Credit Administration shall present a report quarterly to the Board of Directors or its' delegated committee(s) concerning the adequacy of the ALLL. The CRO and CFO shall maintain an ALLL Adequacy File. This file will contain the data and analysis that supports the recommended ALLL balance. At a minimum, this file will contain:

- The calculations used to estimate the required ALLL balance;
- The summary of criticized loans;
- The analysis that supports the pool allocations;
- Qualitative factor adjustment worksheets;
- A narrative to support each qualitative factor adjustment worksheet; and
- Trend analysis for delinquencies and non-accrual loans.

VI. Financial Projections

A. Pro Forma Financials

The MFC's opening day pro-forma balance sheet is presented below. The MFC's financial projections for the first three years of operations are presented as "Base Case".

The following is the MFC's opening day pro-forma statement of condition. This statement takes into consideration capitalized asset purchases/investments and operating expenses incurred during the pre-opening/organization timeframe:

MUNICIPAL FINANCE CORPORATION (PROPOSED)

PRO FORMA STATEMENT OF CONDITION – BEGINNING OF BUSINESS

(Dollars in thousands)

Assets	Amount	Liabilities	Amount
Cash and due from financial institutions	$19,900	Deposits	$0
Securities	$0	Other	$0
Loans	$0	**Total Liabilities**	$0
Premises	$0	**Capital**	
Furniture, fixtures, and equipment	$100	Total Capital	**$20,000**
Other assets	$0	Less pre-opening and accrued organizational exp	($0)
Total Assets	**$0**	**Total Liabilities and Capital**	**$20,000**

The MFC's non-capitalized start-up costs are projected at $20 million, consisting primarily of legal and consulting fees, as well as consulting compensation to proposed staff needed to develop the business plan and policies and procedures, oversee the installation of the management information systems, create accounting and general ledger systems, and perform other duties requisite for the establishment of the MFC.

See the following pages for:

- Three-year balance sheet
- Three-year profit and loss statement
- Three-year financial rations
- Year 1 (2024) assumptions
- Year 1 (2025) assumptions
- Year 3 (2026) assumptions

Note: Please ignore current formatting for these draft model printouts, which will be updated in the final deliverable.

The City will need to update calendar years once it knows when it is submitting the application to regulators.

SFMFC
2024-2026 BUDGET PROJECTION Version 4.0
STATEMENT OF CONDITION
(in thousands)

	2024	2025	2026
ASSETS			
Cash and Due from Banks	500	500	500
Interest-Bearing due from banks	1,705	2,815	2,511
Short Term Investments - CD/Advances	3,000	5,000	7,000
Total Liquid Assets	**5,205**	**8,315**	**10,011**
Gross Loans	20,040	41,034	59,948
Less:			
Allowance for Credit Losses	(501)	(1,026)	(1,500)
Deferred Loan Fees	(23)	(52)	(183)
Net Loans	**19,516**	**39,957**	**58,265**
FF& E	277	256	236
Accrued Interest Receivable	60	110	131
Other Assets	200	200	200
TOTAL ASSETS	**25,258**	**48,837**	**68,843**
LIABILITIES AND EQUITY			
LIABILITIES			
Funding Sources:			
Appropriations	3,000	15,000	25,000
Other Funding Souce	3,000	15,000	25,000
TOTAL FUNDING SOURCES	6,000	30,000	50,000
Accrued Interest Payable	8	31	31
Other Liabilities	80	80	80
TOTAL LIABILITIES	**6,088**	**30,111**	**50,111**
EQUITY			
Contributed Capital	20,000	20,000	20,000
Retained Earnings	-	(830)	(1,273)
YTD Earnings	(830)	(443)	5
TOTAL EQUITY	19,170	18,727	18,732
TOTAL LIABILITIES AND EQUITY	**25,258**	**48,837**	**68,843**
	-	-	-

SFMFC

2024-2026 BUDGET PROJECTION Version 4.0

STATEMENT OF OPERATIONS

(in thousands)

	2024	2025	2026
Interest Income on Loans	617	1,814	2,439
Interest income - due from banks	172	111	63
Short-Term Investments	379	171	214
Subtotal Interest Income	**1,168**	**2,096**	**2,716**
Loan Fee Income (Cost)	1	8	22
Total Interest and Fee Income	**1,169**	**2,104**	**2,739**
Interest Expense - Appripriation Funds	49	261	332
Interest Expense - Other Funding Source	49	261	332
Total Interest Expense	**98**	**522**	**664**
NET INTEREST INCOME	**1,071**	**1,581**	**2,075**
Loan Loss Provision	501	525	474
Net Interest Income after Provision	**570**	**1,056**	**1,601**
Noninterest Income	10	15	16
Noninterest Expense	1,410	1,515	1,612
Net Income GAAP	**(830)**	**(443)**	**4**

SFMFC
Ratio Analysis:
Source: Detail Spreadsheets

Version 4.0

	2024				
Performance Ratios: (Per Avg. Assets)	**1st QTD**	**2nd QTD**	**3rd QTD**	**4th QTD**	**YTD**
Total Interest Income	4.57%	4.95%	5.28%	5.56%	5.10%
Interest Expense	0.12%	0.33%	0.52%	0.69%	0.43%
Net Interest Income	4.45%	4.62%	4.76%	4.87%	4.68%
Non Interest Income	0.05%	0.05%	0.04%	0.04%	0.04%
Non Interest Expense	6.84%	6.38%	5.96%	5.64%	6.16%
Allowance for Credit Losses (ACL)	2.43%	2.27%	2.12%	2.00%	2.19%
Provision: Taxes	N/A	N/A	N/A	N/A	N/A
Return on Average Assets	-4.77%	-3.97%	-3.28%	-2.73%	-3.63%
Break Even Yield	7.57%	7.17%	6.93%	6.71%	7.04%
Efficiency Ratio	152.05%	136.52%	124.13%	114.84%	130.44%
Margin Raios:					
Avg. Earning Assets to Avg. Assets	91.23%	92.38%	93.36%	94.24%	92.87%
Loan Yield	6.22%	6.15%	6.14%	6.15%	6.16%
Cost of Funds	3.23%	3.25%	3.24%	3.25%	3.25%
Net Interest Margin (Avg. Earning Assets)	4.88%	5.01%	5.10%	5.17%	5.04%
Capital Adequacy Ratios:					
Return on Average Equity	-5.03%	-4.49%	-3.96%	-3.53%	-4.24%
Equity / Assets (Tangible)	92.59%	86.37%	80.83%	75.90%	75.90%
Tier 1 Leverage Ratio	94.26%	87.87%	82.19%	77.13%	77.13%
Other Ratios					
ACL/Total Loans	2.50%	2.50%	2.50%	2.50%	2.50%
Total Loans / Total Borrowings	334.00%	334.00%	334.00%	334.00%	334.00%
Total Loans / Total Assets	23.48%	44.30%	62.82%	79.34%	79.34%
Liquid Assets / Total Assets	74.62%	54.49%	36.59%	20.61%	20.61%

	2025				
Performance Ratios: (Per Avg. Assets)	**1st QTD**	**2nd QTD**	**3rd QTD**	**4th QTD**	**YTD**
Total Interest Income	5.58%	5.66%	5.58%	5.33%	5.53%
Interest Expense	1.00%	1.39%	1.54%	1.44%	1.37%
Net Interest Income	4.58%	4.27%	4.04%	3.89%	4.16%
Non Interest Income	0.05%	0.04%	0.04%	0.03%	0.04%
Non Interest Expense	5.05%	4.21%	3.79%	3.31%	3.98%
Allowance for Credit Losses (ACL)	1.82%	1.50%	1.27%	1.11%	1.38%
Provision: Taxes	N/A	N/A	N/A	N/A	N/A
Return on Average Assets	-2.24%	-1.39%	-0.98%	-0.50%	-1.17%
Break Even Yield	6.30%	5.75%	5.44%	4.82%	5.48%
Efficiency Ratio	109.06%	97.46%	92.97%	84.39%	94.90%
Margin Raios:					
Avg. Earning Assets to Avg. Assets	95.32%	96.53%	97.35%	97.98%	96.97%
Loan Yield	6.13%	6.13%	5.98%	5.66%	5.97%
Cost of Funds	3.25%	3.25%	3.00%	2.50%	2.90%
Net Interest Margin (Avg. Earning Assets)	4.80%	4.43%	4.15%	3.98%	4.29%
Capital Adequacy Ratios:					
Return on Average Equity	-3.43%	-2.57%	-2.14%	-1.24%	-2.34%
Equity / Assets (Tangible)	61.11%	51.06%	43.80%	38.34%	38.34%
Tier 1 Leverage Ratio	65.10%	53.86%	45.85%	39.93%	39.93%
Other Ratios					
ACL/Total Loans	2.50%	2.50%	2.50%	2.50%	2.50%
Total Loans / Total Borrowings	210.74%	169.65%	149.11%	136.78%	136.78%
Total Loans / Total Assets	81.30%	82.56%	83.43%	84.02%	84.02%
Liquid Assets / Total Assets	19.06%	18.11%	17.46%	17.03%	17.03%

	2026				
Performance Ratios: (Per Avg. Assets)	**1st QTD**	**2nd QTD**	**3rd QTD**	**4th QTD**	**YTD**
Total Interest Income	4.80%	4.61%	4.49%	4.50%	4.59%
Interest Expense	1.25%	1.15%	1.03%	1.06%	1.11%
Net Interest Income	3.55%	3.46%	3.47%	3.44%	3.48%
Non Interest Income	0.03%	0.03%	0.03%	0.02%	0.03%
Non Interest Expense	3.11%	2.84%	2.58%	2.39%	2.70%
Allowance for Credit Losses (ACL)	0.92%	0.83%	0.76%	0.70%	0.79%
Provision: Taxes	N/A	N/A	N/A	N/A	N/A
Return on Average Assets	-0.45%	-0.18%	0.15%	0.38%	0.01%
Break Even Yield	4.31%	3.94%	3.56%	3.40%	3.77%
Efficiency Ratio	86.80%	81.39%	73.90%	68.95%	77.13%
Margin Raios:					
Avg. Earning Assets to Avg. Assets	100.29%	100.53%	100.68%	100.80%	100.59%
Loan Yield	5.00%	4.88%	4.74%	4.72%	4.84%
Cost of Funds	2.00%	1.75%	1.50%	1.50%	1.66%
Net Interest Margin (Avg. Earning Assets)	3.54%	3.44%	3.44%	3.41%	3.46%
Capital Adequacy Ratios:					
Return on Average Equity	-1.24%	-0.56%	0.52%	1.35%	0.02%
Equity / Assets (Tangible)	34.72%	31.73%	29.27%	27.21%	27.21%
Tier 1 Leverage Ratio	35.78%	32.63%	30.04%	27.88%	27.88%
Other Ratios					
ACL/Total Loans	2.50%	2.50%	2.50%	2.50%	2.50%
Total Loans / Total Borrowings	130.75%	126.23%	122.71%	119.90%	119.90%
Total Loans / Total Assets	85.09%	85.94%	86.58%	87.08%	87.08%
Liquid Assets / Total Assets	16.32%	15.56%	14.99%	14.54%	14.54%

SFMFC ***YEAR 2024***

Q1	Q2	Q3	Q4

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Federal Fund Rate	4.50%	12/31/2024 Federal Fund Rate	4.50%	Loan Beta (fixed rate)	50%
Prime Rate	7.50%	12/31/2024 Prime Rate	7.50%	Funding Source Beta	100%

Key Input and Assumptions

Loans

Monthly Run-Off Rate	0.00%											
Loan Types	Amount Distribution		Current Loan Interest Rate					New Loan Interest Rate				
	Current	Last Yr	Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affordable Housing	10.00%	0.00%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%
Green Energy	10.00%	0.00%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%
Small Business Support	40.00%	0.00%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%
CDFI/CFI	40.00%	0.00%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%

Forecast Annual Non-Interest Income

Other Loan Income	5,000
Mortgage Loan Fee Income	0
Other Income	0
International Operating Income	0
Life Insurance CSV Earning	0
Sublease Income	0
Gain (Loss) on Sale of Securities	0
Gain (Loss) on Sale of OREO	0
OREO Income	0
Misc. Income	5,000

Non-Interest Expense

ITEM DESCRIPTION	Rate
Payroll Tax % of Salary	11.00%
Group Insurance % of Salary	12.00%
401K Contribution % of Salary	3.00%
FASB 91 Direct & Deferred Costs % of Salary	10.00%
Occupancy Expense Increase Rate %	0.00%
Data Processing Increase Rate %	0.00%
Regulatory Assessments Increase Rate %	0.00%
Director Fees Increase Rate %	0.00%
Other Operating Expense Increase Rate	0.00%
Salary (Fixed Amoubt $)*	**64,000**
Incentive/Bonus (Fixed Amoubt $)	3,000
Legal Fee (Fixed Amount $)	3,000

Funding Sources

Funding Source Types	Amount Distribution		Interest Rate				
	Current	Last Yr	Last Yr	New-Q1	New-Q2	New-Q3	New-Q4
Appropriations	50.00%	0.00%	3.25%	3.25%	3.25%	3.25%	3.25%
Other Funding Source	50.00%	0.00%	3.25%	3.25%	3.25%	3.25%	3.25%

Balance Sheet & Income Statement

Unrealized Gain (Loss) on Mkt Sec., net of taxes	0
Unrealized Gain (Loss) on Mkt Sec., gross	0
Accrued Interest Payable- Adjust Rate	0.00%
Bank Premises and Equipment, Net Depreciation Rate	0.67%
Tax Provision Rate	0.00%
Monthly Salary for CEO/CCO	25,000
Monthly Salary for Financial Controller	15,000
Monthly Salary for three (3) staff	24,000
Total Base Salary	**64,000**
FASB 91 Loan Fees	0.50%
Average monthly FASB 91 Capitalization	$ 6,400

Investments

New Investment Amount	
US Agency Securities	0

Note: MBS paydown rate is based on the assumption 1-X% of the previous month balance

Investment Types			Current Investment Interest Rate					New Investment Interest Rate				
			Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
Deposit in Banks	-		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal Reserve Interest Bearing	-		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Interest-Bearing due from banks	-		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
US Agency Securities	-		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
CD/Term Advances	-		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
Target General Reserves for Credit Losses		2.50%										

SFMFC YEAR 2025

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			Q1	Q2	Q3	Q4				
1/1/2025 Federal Fund Rate	4.50%	Decrease in rates:			0.25%	0.50%	12/31/2025 Federal Fund Rate	3.75%	Loan Beta (fixed rate)	50%
1/1/2025 Prime Rate	7.50%	Decrease in rates:			0.25%	0.50%	12/31/2025 Prime Rate	6.75%	Funding Source Beta	100%

Key Input and Assumptions

Loans

Annual Growth Rate	
Monthly Run-Off Rate	1.25%

Loan Types	Amount Distribution Current	Amount Distribution Last Yr	Current Loan Interest Rate Last Yr	Q1	Q2	Q3	Q4	New Loan Interest Rate Last Yr	Q1	Q2	Q3	Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affordable Housing	10.00%	0.00%	5.63%	5.63%	5.63%	5.38%	4.88%	5.63%	5.63%	5.63%	5.38%	4.88%
Green Energy	10.00%	0.00%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.50%	6.25%
Small Business Support	40.00%	0.00%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.63%	6.50%	6.25%
CDFI/CFI	40.00%	0.00%	5.63%	5.63%	5.63%	5.38%	4.88%	5.63%	5.63%	5.63%	5.38%	4.88%

Funding Sources

Target Loan to Deposit Ratio	

Funding Source Types	Amount Distribution Current	Amount Distribution Last Yr	Interest Rate Last Yr	New-Q1	New-Q2	New-Q3	New-Q4
Appropriations	50.00%	0.00%	3.25%	3.25%	3.25%	3.00%	2.50%
Other Funding Sources	50.00%	0.00%	3.25%	3.25%	3.25%	3.00%	2.50%

Investments

New Investment Amount	
US Agency Securities	-

Note: MBS paydown rate is based on the assumption 1-X% of the previous month balance

Investment Types			Current Investment Interest Rate Last Yr	Q1	Q2	Q3	Q4	New Investment Interest Rate Last Yr	Q1	Q2	Q3	Q4
Deposit in Banks	-		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal Reserve Interest Bearing	-		4.50%	4.50%	4.50%	4.25%	3.75%	4.50%	4.50%	4.50%	4.25%	3.75%
Interest-Bearing due from banks	-		4.50%	4.50%	4.50%	4.25%	3.75%	4.50%	4.50%	4.50%	4.25%	3.75%
US Agency Securities	-		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
CD/Term Advances	-		4.75%	4.75%	4.75%	4.50%	4.00%	4.75%	4.75%	4.75%	4.50%	4.00%
Target General Reserves for Credit Losses	2.50%											

Forecast Annual Non-Interest Income

Other Loan Income	5,150
Mortgage Loan Fee Income	0
Deposit Service Charge and Other Income	5,150
International Operating Income	0
Life Insurance CSV Earning	0
Sublease Income	0
Gain (Loss) on Sale of Securities	0
Gain (Loss) on Sale of OREO	0
OREO Income	0
Misc. Income	5,150
Other Operating Expense Increase Rate	3.00%

Non-Interest Expense

ITEM DESCRIPTION	Rate
Payroll Tax % of Salary	11.00%
Group Insurance % of Salary	12.00%
401K Contribution % of Salary	3.00%
FASB 91 Direct & Deferred Costs % of Salary	10.00%
Occupancy Expense Increase Rate %	3.00%
Data Processing Increase Rate %	3.00%
Regulatory Assessments Increase Rate %	3.00%
Director Fees Increase Rate %	0.00%
Other Operating Related Expense Increase Rate	3.00%
Salary (Fixed Amount $)*	65,920
Incentive/Bonus (Fixed Amount $)	3,000
Legal Fee (Fixed Amount $)	3,000

Balance Sheet & Income Statement

Unrealized Gain (Loss) on Mkt Sec., net of taxes	0
Unrealized Gain (Loss) on Mkt Sec., gross	0
Accrued Interest Payable- Adjust Rate	0.00%
Bank Premises and Equipment, Net Depreciation Rate	0.67%
Tax Provision Rate	0.00%
Monthly Salary for CEO/CCO	25,750
Monthly Salary for CFO	15,450
Monthly Salary for three (3) staff	24,720
Total Base Salary	**65,920**
FASB 91 Loan Fees	0.50%

SFMFC	**YEAR 2026**		Q1	Q2	Q3	Q4				Version 3.0
1/1/2026 Federal Fund Rate	3.75%	Decrease in rates:	0.50%	0.25%	0.25%		12/31/2026 Federal Fund Rate	2.75%	Loan Beta	50%
1/1/2026 Prime Rate	6.75%	Decrease in rates:	0.50%	0.25%	0.25%		12/31/2026 Prime Rate	5.75%	Funding source Beta	100%

Key Input and Assumptions

Loans

Monthly Run-Off Rate		1.67%										
Loan Types	Amount Distribution		Current Loan Interest Rate					New Loan Interest Rate				
	Current	Last Yr	Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affordable Housing	10.00%	0.00%	4.88%	4.88%	4.88%	4.88%	4.88%	4.88%	4.38%	4.13%	3.88%	3.88%
Green Energy	10.00%	0.00%	6.41%	6.41%	6.41%	6.41%	6.41%	5.88%	5.63%	5.50%	5.38%	5.38%
Small Business Support	40.00%	0.00%	6.41%	6.41%	6.41%	6.41%	6.41%	5.88%	5.63%	5.50%	5.38%	5.38%
CDFI/CFI	40.00%	0.00%	4.88%	4.38%	4.13%	3.88%	3.88%	4.88%	4.38%	4.13%	3.88%	3.88%

FUNDING SOURCES

Target Loan to Deposit Ratio							
Funding Source Types	Amount Distribution		Interest Rate				
	Current	Last Yr	Last Yr	New-Q1	New-Q2	New-Q3	New-Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Appropriations	50.00%	0.00%	2.50%	2.00%	1.75%	1.50%	1.50%
Other Funding Source	50.00%	0.00%	2.50%	2.00%	1.75%	1.50%	1.50%

Investments

New Investment Amount												
US Agency Securities			0									
				Note: MBS paydown rate is based on the assumption 1-X% of the previous month balance								
Investment Types			Current Investment Interest Rate					New Investment Interest Rate				
			Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
Deposit in Banks	-		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal Reserve Interest Beari	-		3.75%	3.25%	3.00%	2.75%	2.75%	3.50%	3.00%	2.75%	2.50%	2.50%
Interest-Bearing due from bank	-		3.75%	3.25%	3.00%	2.75%	2.75%	3.50%	3.00%	2.75%	2.50%	2.50%
US Agency Securities	-		4.75%	4.75%	4.75%	4.75%	4.75%	4.00%	4.00%	4.00%	4.00%	4.00%
CD/Term Advances	-		4.00%	3.50%	3.25%	3.00%	3.00%	4.00%	3.50%	3.25%	3.00%	3.00%
Target General Reserves for Credit Losses		2.50%										

Forecast Annual Non-Interest Income

Other Loan Income	5,305
Mortgage Loan Fee Income	0
Deposit Service Charge and Other Income	5,305
International Operating Income	0
Life Insurance CSV Earning	0
Sublease Income	0
Gain (Loss) on Sale of Securities	0
Gain (Loss) on Sale of OREO	0
OREO Income	0
Misc. Income	5,305
Other Operating Expense Increase Rate	3.00%

Non-Interest Expense

ITEM DESCRIPTION	Rate
Payroll Tax % of Salary	11.00%
Group Insurance % of Salary	12.00%
401K Contribution % of Salary	3.00%
FASB 91 Direct & Deferred Costs % of Salary	10.00%
Occupancy Expense Increase Rate %	3.00%
Data Processing Increase Rate %	3.00%
Regulatory Assessments Increase Rate %	3.00%
Director Fees Increase Rate %	0.00%
Other Operating Related Expense Increase Rate	3.00%
Salary (Fixed Amount $)*	74,593
Incentive/Bonus (Fixed Amount $)	3,000
Legal Fee (Fixed Amount $)	4,000

Balance Sheet & Income Statement

Unrealized Gain (Loss) on Mkt Sec., net of taxes	0
Unrealized Gain (Loss) on Mkt Sec., gross	0
Accrued Interest Payable- Adjust Rate	0.00%
Bank Premises and Equipment, Net Depreciation Rate	0.67%
Tax Provision Rate	0.00%
Monthly Salary for CEO/CCO	26,523
Monthly Salary for CFO	15,914
Monthly Salary for Four (4) staff	32,157
Total Base Salary	**74,593**
FASB 91 Loan Fees	0.50%
Average monthly FASB 91 Capitalization	$ 7,459