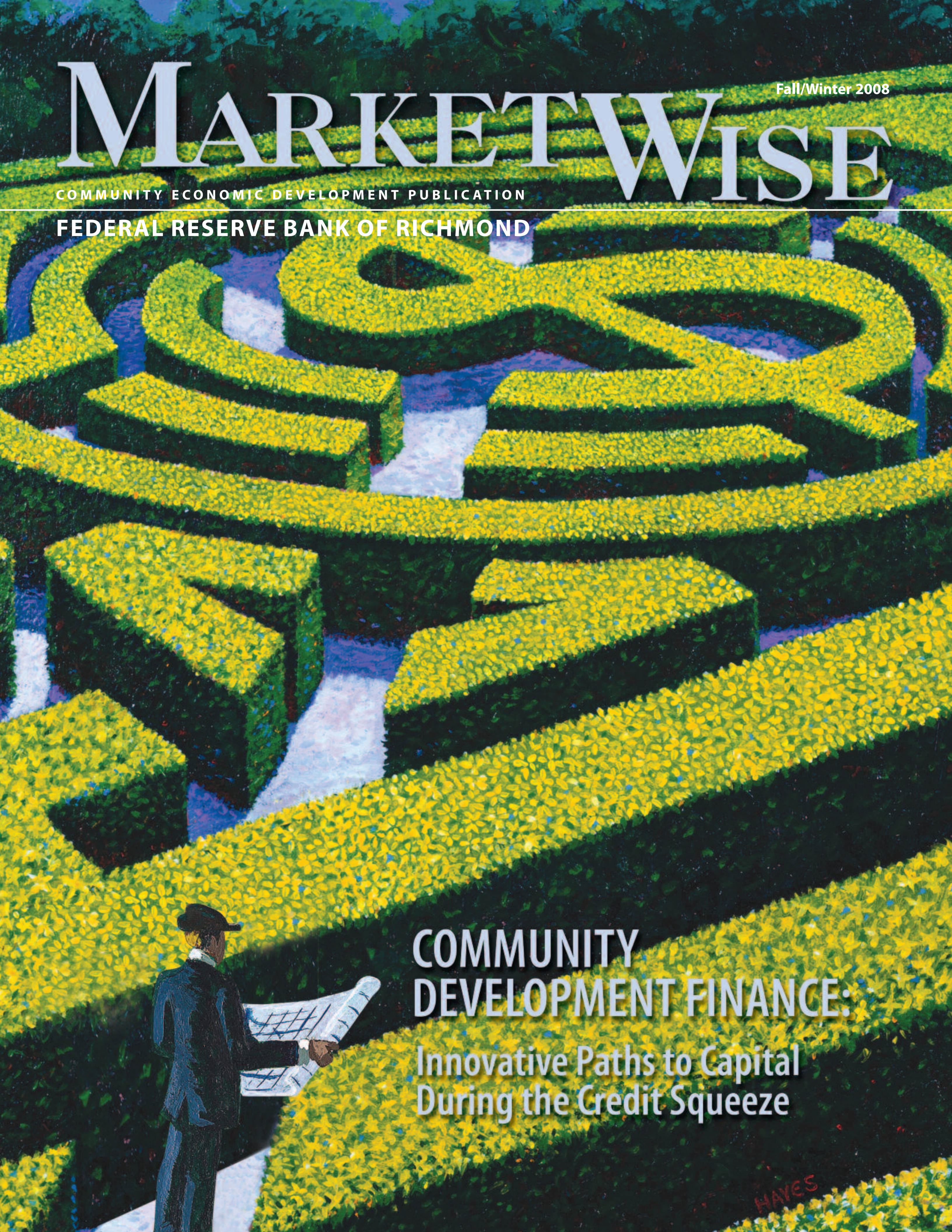
Fall/Winter 2008

MarketWise

COMMUNITY ECONOMIC DEVELOPMENT PUBLICATION

FEDERAL RESERVE BANK OF RICHMOND



COMMUNITY DEVELOPMENT FINANCE:

Innovative Paths to Capital During the Credit Squeeze

MARKETWISE

FALL/WINTER 2008

The mission of *MARKETWISE* is to provide both progressive and practical information about community economic development that supports economic growth in the Fifth District. The Fifth District consists of Maryland, North Carolina, South Carolina, Virginia, most of West Virginia and the District of Columbia.

MARKETWISE is published two times a year by the Federal Reserve Bank of Richmond. Free subscriptions and additional copies are available upon request.

We welcome *MARKETWISE* article ideas and suggestions from community economic development practitioners. Email comments to Jennie.Blizzard@rich.frb.org.

Editor: Jennie Blizzard
Design/Photography: Ailsa Long

A special thanks goes to Elaine Mandaleris-Preddy for editing assistance.

To inquire about CAO publications, contact:
The Federal Reserve Bank of Richmond
Community Affairs Office
P.O. Box 27622, Richmond, VA 23261-7622
Phone: (804) 697-8457, Fax: (804) 697-8473
www.richmondfed.org/community_development/

Cover Photo: Getty Images/Stephen F. Hayes

President's Message

This year has proven to be turbulent for global financial markets and our nation's economy. Home foreclosures have reached record highs, investment firm giants have toppled and several banks have been unable to survive. During periods of financial volatility, unintended consequences frequently emerge. In this case, credit markets have tightened.

Many attribute the mortgage market meltdown to financial innovation gone too far. Some argue that unconventional underwriting moved too many people into homeownership, beyond the capacity of borrowers to afford the terms of their mortgage agreements and the ability of investors to assess the real risks involved. But should we abandon innovation in financial markets even if undesirable outcomes occur?

Innovation has been the wellspring of the profound improvements in standards of living over the last two centuries. Nonetheless, innovation requires experimentation, and not all experiments turn out as predicted. Although we have learned valuable lessons about the risks associated with mortgage lending and securitization, we should not forget that tough lessons give rise to new opportunities.

The community development field continues to rise to the challenge during financial adversity. Since I first became familiar with community development more than a decade ago, I have been deeply impressed by the field's ability to innovate despite limited resources. In this issue of *MARKETWISE*, we highlight the work of community development practitioners who continue to blend public/private sector funding and establish unique partnerships that improve people's lives. As financial markets reshape themselves and ultimately recover, community development practitioners will remain at the forefront of pioneering new ideas that continue to move our country forward.

Jeffrey M. Lacker, President
Federal Reserve Bank of Richmond

Table Of Contents

Photo: Corbis

Community Development Finance: Innovative Paths to Capital During the Credit Squeeze

By Angelyque Campbell and Jennie Blizzard

Photo: Corbis

What may have begun as a subprime mortgage issue has had further-reaching effects. While it is common to hear about low consumer confidence, high unemployment rates and a volatile stock market, the role that the credit squeeze will have on community development brings some challenges as well as opportunities to create and maintain flexible funding strategies.

Historically, community development practitioners have contended with limited resources but, over time, Community Development Financial Institutions (CDFIs) have played an important role in filling funding gaps. CDFIs are financial entities that provide credit, capital and financial services to underserved markets and populations. They have used unconventional strategies to support job creation, affordable housing, community facilities and banking services.

The current contraction of credit markets will require more innovative ways of serving lower-income communities. CDFIs in the Fifth District have implemented effective strategies aimed at keeping access to credit and capital open during the credit crunch. Going forward, liquidity constraints may jeopardize future financing for underserved communities.

What Happened?

Before one explores how CDFIs are weathering the market downturn, it is important to understand what contributed to the meltdown. According to "The Credit Crunch of 2007-2008: A Discussion of the Background, Market Reactions and Policy Responses," by Paul Mizen, several factors contributed to a credit crunch. For one, financial products such as mortgage-backed securities (MBSs) introduced greater complexity and weaker underlying assets based on subprime mortgages.

What is the connection between credit markets and home loans? Subprime residential mortgages were pooled and packaged as collateral and sold on the secondary market as mortgage-backed securities. MBSs are bonds. Bond holders are paid from mortgage payments, which fund MBS pools. As long as homeowners paid their mortgages, the cash flow into the pools remained strong and investors/bondholders profited, thus keeping the cycle of subprime lending moving.

The situation changed when housing prices across the country fell. This sudden drop was not accounted for in the MBS models used to assess risk. Declines in house prices triggered increased defaults in the subprime market and possibly the current mortgage meltdown. Recent market events sent investors scrambling to reappraise the risks associated with the high-yielding residential MBSs and collateralized debt

Photo: Courtesy of Opportunity Finance Network

"The housing market remains central to the economic and financial challenges that we face. Because housing and mortgage markets are tightly interlinked with the rest of the economy, actions to strengthen financial markets in the broader economy are important ways to address housing issues. By the same token, steps that stabilize the housing market will help stabilize the economy as well."

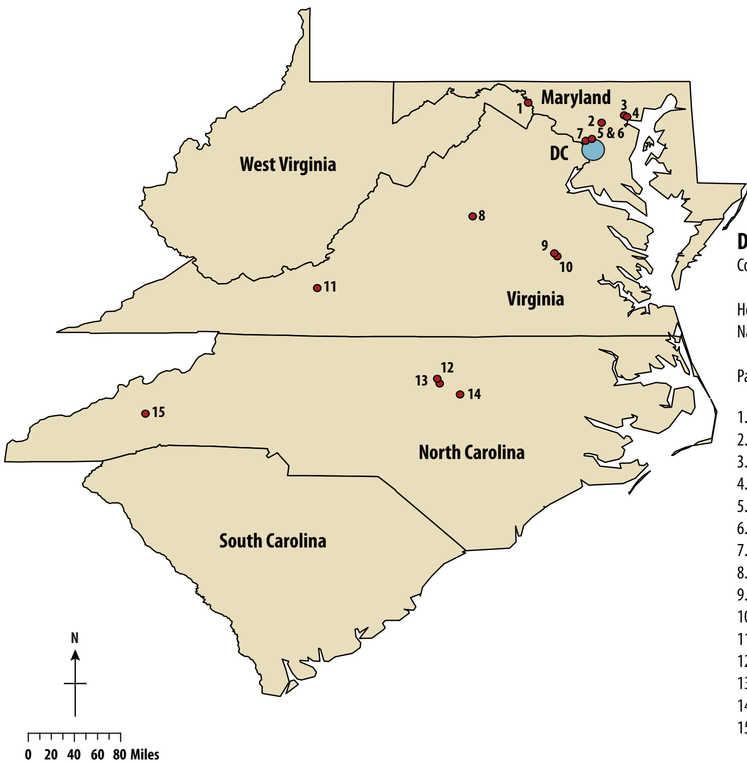
– Ben S. Bernanke, Chairman,
Federal Reserve Board of Governors

obligations (types of asset-backed securities).

Mizen also asserts that any number of other high-yield asset markets might have fueled the 2007-08 credit crunch, including hedge funds, private equity and emerging market equities. However, it just happened to be that the subprime trouble occurred first. A number of bank failures then spurred a reaction in the markets for short-term paper, and other financial institutions withdrew from lending in money markets.

FIGURE 1

Fifth District: Community Development Financial Institutions



DC CDFIs:
Community Development Transportation Lending Services
Housing Assistance Council, Inc.
National Housing Trust Community Development Fund
Partners for the Common Good

1. Natural Capital Investment Fund, Inc.
2. Community Capital of Maryland
3. Baltimore Community Lending
4. Enterprise Community Loan Fund
5. NeighborWorks Capital
6. Calvert Special Investment Foundation
7. OpenDoor Housing Fund
8. Piedmont Housing Alliance
9. Virginia Community Development Corporation
10. Richmond Economic Development Corporation
11. Virginia Community Capital, Inc.
12. SJF Ventures
13. Self-Help & Affiliates
14. NC Community Development Initiative, Inc.
15. Mountain BizWorks

Source: Opportunity Finance Network (OFN) member list

Solid underwriting standards and relationship lending may have shielded some CDFIs from severe impacts of the credit crunch. Although CDFIs typically lend to people who can't qualify for a conventional loan, CDFIs tend to know their neighborhoods well and insure that the borrower can repay the loan.[1]

The Funding Maze

Notwithstanding that CDFIs make prudent lending decisions and maintain low loan losses, the road ahead for CDFIs in the current credit market remains unclear. The Opportunity Finance Network (a member organization for CDFIs) estimates that more than 90 percent of CDFI capital comes from private sources such as banks, faith-based institutions, foundations and individuals. As credit standards tighten, many fear that banks and investors will scale back their participation in community development projects. Private-sector investment remains critical to CDFIs' ability to meet the credit and capital needs of underserved communities.

For each dollar the federal government has invested in CDFIs through the Community Development Financial Institutions Fund (CDFI Fund)—an office within Treasury—CDFIs have leveraged between $19 and $27 in new private sector investments, according to the U.S.

WASHINGTON, D.C.

CITY FIRST BANK SPURS INNOVATIVE DEVELOPMENTS IN D.C.

By Ellen Janes

City First Bank has dedicated 10 years of lending to boosting the economic vitality of Washington, D.C.'s most distressed communities. As part of its list of services, City First offers a wide range of financial tools, technical expertise and mission-related investment opportunities to the nation's capital and its nearby suburbs. Ambitious partnerships with local, regional and national institutions and the creative use of public funds have made City First a leader in community development.

City First works closely with its community-based customers, which include small, often start-up, businesses; nonprofit organizations; social service agencies; charter schools; and nonprofit and for-profit developers of affordable housing.

Originally capitalized with $9.5 million in federal Economic Development Initiative and Community Development Block Grant funding, City First created a bank holding company to raise capital from investors. Investors range from Georgetown University to major banks serving the D.C. metropolitan area.

City First Bank is also certified as a Community Development Financial Institution (CDFI) and a Community Development Entity (CDE) by the CDFI Fund. Its CDFI certification has enabled the bank to receive more than $4 million in federal support and to be eligible for the Federal New Markets Tax Credits (NMTC) program. Since 2004, the Bank has received $163 million in NMTCs and leveraged over $292 million in private financing.

City First Bank has gained expertise in the creative use of public funding and deposits from mission-oriented entities to leverage conventional debt. To attract the deposits it needs to fulfill its lending mission, City First offers a full range of deposit types, plus "large bank" services like Internet banking, remote deposit, deposit analysis and other special services. The Certificate of Deposit Account Registry Service allows investors to provide an FDIC guarantee to very large

Photo: Courtesy of City First Bank

Owner, Warren Brown at his bakery, Cake Love.

deposits. This is especially useful for nonprofits and foundations whose investment policies require full security for their gifts and grants.

One of City First's partners is the Cooperative Assistance Fund (CAF). CAF maintains a deposit with City First that is specifically designated to be used as cash collateral for loans to help approved borrowers of modest means. Since 2002, City First has made $1.3 million in loans using this facility. The financing has leveraged $4 in conventional debt for each dollar of CAF investment and has helped create 63 jobs in small neighborhood businesses.

This partnership, which builds on generous support from partners, combined with City First's careful underwriting and capacity to recognize borrower potential, can reap dramatic results. The most famous customer to benefit from the CAF partnership was Cake Love. This business has now grown from one location to seven in the metropolitan area, creating 100 new jobs. Cake Love owner, Warren Brown, has appeared on Oprah and has just finished a 26-segment show on the Food Network called "Sugar Rush."

City First remains a leader in utilizing the New Markets Tax Credit program. NMTCs have helped the bank finance its largest economic development projects, including the E.L. Haynes and Thurgood Marshall Public Charter Schools, the Town Hall Education and Arts Center, the theater/retail redevelopment of Tivoli Square and the Atlas Center for the Arts.

Euphemia L. Haynes Public Charter School

The E. L. Haynes Public Charter School currently serves 308 children from first through eighth grades. About $21 million in NMTC authority provided by City First in 2006 encouraged a number of investors to contribute to the school project. Partners included National Mutual Insurance Company and Boston Community Capital. With these resources, the school moved from temporary quarters above a CVS store to a 46,000-square-foot green facility. Thirty-year, fixed-rate and below-market financing will save the school nearly $1 million per year— funds that now can be used for academic and enrichment programs. The school plans to add a 450-student high school within five years.

Tivoli

The Tivoli project in the Columbia Heights neighborhood emerged through the vision of developer, Joseph Horning. Horning and his firm, Horning Brothers Developers, worked with businesses, neighborhood activists and social service organizations to arrange a sustainable occupancy mix, including a major grocery store, small retailers, the offices of a nonprofit agency, a bank and the Gala Hispanic Theater. Using $18 million in NMTC , City First and Wachovia Bank financed the renovation of this 1922 movie palace into a cultural center for the thriving Latino community of Columbia Heights. The Tivoli development has spurred even more business as coffee houses, a pizza parlor, and other small businesses have emerged to serve patrons of the theater as well as the entire neighborhood.

For more information, visit **www.cityfirstbank.com**

Ellen Janes is a regional community development manager in the Federal Reserve Bank of Richmond's Community Affairs Office. She works out of the Baltimore Office and conducts outreach in Maryland, Washington, D.C., and Northern West Virginia.

NORTH CAROLINA

NORTH CAROLINA SUSTAINS "INITIATIVE" DURING THE CREDIT CRUNCH

By Carl Neely

How does a community development finance organization keep its doors open in lean funding times? For one, by investing in community-based organizations that raise their own revenues. The North Carolina Initiative Capital (Initiative Capital), a certified Community Development Financial Institution (CDFI) based in Durham, N.C., seeks to invest in high-performing community development corporations (CDCs) that are sustainable and grow their operations. Initiative Capital leverages these investments and appropriations to attract millions of dollars of additional private sector investment.

Like private-sector companies, who continually re-engineer their business practices and strategies to keep pace with market changes, CDFIs are challenged to re-evaluate the effectiveness of their operations. Initative Capital, for example, has begun to deploy new strategies to strengthen its ability to serve as a community investor and partner. Working closely with the North Carolina Community Development Initiative, its parent company, Initiative Capital provides project lending, strategic issue management and project development assistance to the CDC industry and other mission-based ventures statewide.

Photos: Courtesy of North Carolina Community Development Initiative

An affordable housing project supported by the North Carolina Community Development Initiative in Kinston and Sanford, North Carolina.

The current credit environment has caused Initiative Capital to shift strategic focus. "Initiative Capital has seen an increase in demand for working capital lines of credit, debt restructuring and gap financing for development projects," explains Aundra Wallace, senior vice president of commercial real estate for Initiative Capital. The organization has received more than $6 million in loan requests, up from more than 50 percent over the previous year. According to Wallace, tightened credit underwriting thresholds will likely cause demands of capital to remain high into 2009.

Initiative Capital's current strategic approach hinges on delivering key lending products and technical assistance. Some of these products include real estate development, land acquisition, and gap, working capital, and short-term permanent financing. Under its Flexible Credit Lending product, Initiative Capital provided a $40,000 bridge loan to Wilson Community Improvement Association in Wilson, N.C. The loan supported a $6 million rehabilitation project for Beacon Pointe, a 104-unit, market-rate apartment complex with affordable housing units.

The Initiative Capital continues to create new products that meet the capital needs of local communities. These products are vital to the North Carolina community development industry, which invests 78.6 percent of CDFI fund dollars in affordable housing construction. Initiative Capital has amassed over $20 million in lending capacity.

Initiative Capital continues to deploy innovative approaches to fill critical capital gap needs for their community development partners. Additionally, they have become more attractive to investors and philanthropic organizations that seek to invest in initiatives that target resources and have measurable outcomes. Not only has Initiative Capital established loan products and services in the state, the organization has also taken a lead role in green building through their product line called EnviroSteel™. EnviroSteel™ consists of ready-to-build housing plans that combine passive solar technology and steel framing. The designs incorporate energy-efficient construction standards as well as an optional solar water heating system. This idea will open new sources of financing for affordable housing.

For more information about Initiative Capital, visit **www.ncinitiative.org/home.cfm**.

Carl Neely is a regional community development manager in the Federal Reserve Bank of Richmond's Community Affairs Office. He works out of the Charlotte Office and conducts outreach in North Carolina and South Carolina.

Maryland

Maryland Funder Embraces an International Lending Strategy

By Ellen Janes

Maryland Capital Enterprises (MCE) discovered inspiration for its microenterprise lending program in Bangladesh as well as in neighboring Delaware. From afar, MCE admired the work of the Grameen Bank in Bangladesh—where grants of less than $100 could be leveraged to grow a home business. Also, the State of Delaware's micro-capital initiative in the mid-90s reaffirmed that the model could work in Maryland.

Beginning in 1998, MCE has gradually refined its microenterprise approach into a program that delivers a cost-effective, high-performing economic development tool to eight of Maryland's Eastern Shore counties. Throughout the 1990s, the Maryland shore's manufacturing and seafood industries declined and new jobs were scarce. Economic development and planning professionals from rural Wicomico County, the University of Maryland-Eastern Shore's Rural Development Center and the U.S. Department of Agriculture (USDA) recognized an abundance of talent and commitment to hard work in the shore's population. Looking for a strategy that could build upon this strength, MCE settled on peer lending as practiced by the Grameen Bank and emulated by Delaware's YWCA.

MCE began as a peer lender, holding monthly meetings of small groups of entrepreneurs who collectively reviewed, approved and monitored loans that averaged $500. In 2000, in consideration of their borrowers who preferred a more customary relationship with both lenders and peers, MCE shifted to a more conventional lending approach. Gradually, as a certified Small Buisness Administration (SBA) lender, USDA Small Business Intermediary Lender and Community Development Financial Institution (CDFI), MCE has raised its maximum loan amount to $35,000 for a start-up business and $50,000 for expansions. They have developed an extensive variety of support for start-up and expanding businesses. MCE now offers pre- and post-loan assistance on topics ranging from inventory control and marketing, to minority business certification. MCE staff make frequent on-site visits to program participants to maintain strong customer relations. They also offer training and assistance to businesses.

"MCE is dedicated to developing sustainable communities and improving the quality of life through rural economic development. The face of entrepreneurship reflects the dreams and goals of each person. Our microlending programs create an increased self-respect and a sense of achievement to our clients," says Hayley Gallagher from Maryland Capital Enterprises.

Since 1998, MCE has lent nearly $1 million. More than 900 entrepreneurs have taken advantage of MCE's training, counseling and loan funds, and together they have created more than 150 permanent jobs. MCE's annual budget averages $575,000. About 85 percent of the group's support comes from federal and state sources, and the balance comes from individual and corporate contributions and foundation grants.

For more information, visit **www.marylandcapital.org** or call (410) 546-1900.

Ellen Janes is a regional community development manager in the Federal Reserve Bank of Richmond's Community Affairs Office. She works out of the Baltimore Office and conducts outreach in Maryland, Washington, D.C., and Northern West Virginia.

Department of the Treasury. This proves to be the case largely in government tax-credit programs that finance affordable housing and development projects. It also applies to entities that offer banking services targeted to lower-income communities and persons.

CDFIs, like traditional financial institutions, depend on credit availability to provide financing. Recent losses in the housing and credit markets have left financial companies without profits to shield themselves from taxes, a benefit that government tax-credit programs provide. In early 2008, *The Wall Street Journal* reported that these losses have stalled affordable housing projects, primarily multifamily construction. With few buyers of the Low Income Housing Tax Credits (LIHTCs)—a federal program designed to support the production of new affordable rental housing through tax credits—developers face a steep funding gap. "With millions of homes expected to go into foreclosure over the next few years, an ample supply of affordable multifamily housing is more crucial than ever," said Judy Kennedy, executive director of the National Association of Affordable Housing Lenders. "The severe liquidity constraints faced by our nation's leading nonprofit lenders threaten that supply." Lower credit availability keeps CDFIs from responding to higher demands for alternative affordable housing options, especially as the number of mortgage foreclosures that displace homeowners continues to escalate.

FIGURE 2

Organization Type of CDFIs in the Fifth District

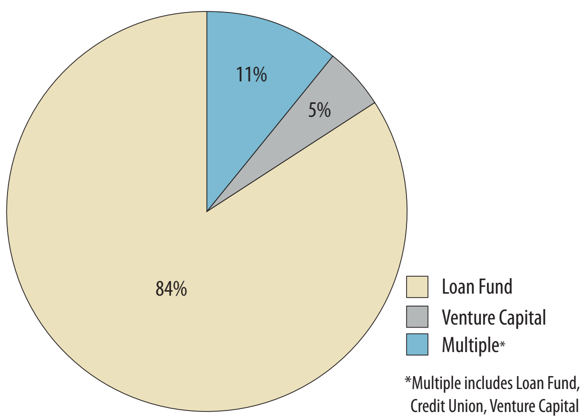
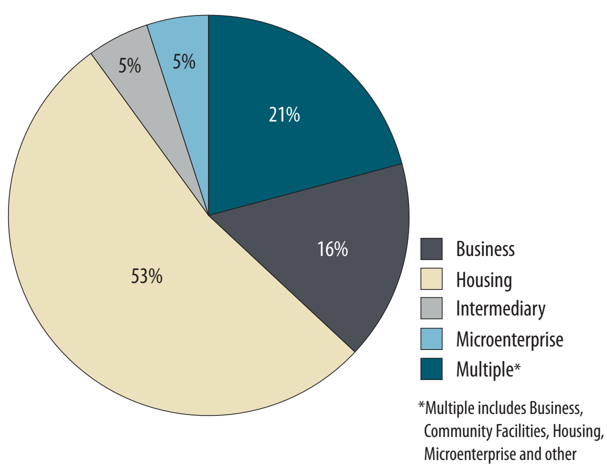


FIGURE 3

Lender Type of CDFIs in the Fifth District



Note: From the Opportunity Finance Network's member list, 19 community development financial institutions operate in the Fifth District. Of the 19, about 80 percent are organized as loan funds and over half are engaged in affordable housing lending. [See the list of CDFIs on page 17.]

CDFIs: Past and Present

According to the CDFI Coalition, the current CDFI industry began taking shape in the late 1960s and early 1970s. During that time, CDFIs, some of which started as community development corporations, expanded their funding sources by reaching out to private organizations, particularly religious institutions and individuals. In the 1990s, the CDFI industry expanded dramatically, in large part because of the creation of the CDFI Fund and revisions to the Community Reinvestment Act (CRA), which explicitly recognizes loans and investments in CDFIs as a qualified CRA activity.[2] Created in 1994, the CDFI Fund has become a critical source of support for the CDFI industry by promoting economic revitalization and community development through investment in and assistance to CDFIs. To date, the CDFI Fund has certified over 800 CDFIs. It has also awarded over $900 million to CDFIs, community development organizations and financial institutions through its programs.

The CDFI industry raises capital from banks, corporations, individuals, and government and philanthropic sources. CDFIs generally fall into six categories:

- **Community Development Banks** provide capital to rebuild lower-income communities through targeted lending and investment.
- **Community Development Credit Unions** promote community ownership of assets and savings; provide affordable credit card and retail financial services to lower-income people with special outreach to minority communities; and offer deposit and loan services only to members.
- **Community Development Loan Funds** aggregate capital from individuals and institutional social investors at below-market rates and re-lend this money primarily to nonprofit housing and business developers in urban and rural lower-income communities.
- **Community Development Venture Capital Funds** provide equity and debt with equity features for medium-sized businesses to create jobs, entrepreneurial capacity and wealth that benefits low-income people and communities.
- **Microenterprise Development Loan Funds** foster social and business development through loans and technical assistance to low-income individuals who own very small businesses or who are self-employed and unable to access conventional credit.
- **Community Development Corporations** revitalize neighborhoods by producing affordable housing, creating jobs and providing social services to low-income communities.[3]

[See the CDFI comparison chart on pages 14 and 15.]

The growth of the CDFI industry, in large part, has expanded the concept of community development. Moving beyond the "War on Poverty" framework—one in which government allocates funds to infrastructure upgrades in distressed communities and to social service programs—community development is measured by its performance

ADDITIONAL RESOURCES:

CDFI Fund
www.cdfifund.gov

CDFI – Community Investment Impact System – describes CIIS, links to research, findings and reports
www.cdfifund.gov/impact_we_make/data_reports.asp

The CDFI Coalition
www.cdfi.org

CDFI Institute
http://cdfi.org/index.php?page=institute-a

STATE PROFILES

DC
http://cdfi.org/uploads/stateprofiles/DC.pdf

MD
http://cdfi.org/uploads/stateprofiles/Maryland.pdf

NC
http://cdfi.org/uploads/stateprofiles/NorthCarolina.pdf

SC
http://cdfi.org/uploads/stateprofiles/SouthCarolina.pdf

VA
http://cdfi.org/uploads/stateprofiles/Virginia.pdf

WV
http://cdfi.org/uploads/stateprofiles/WestVirginia.pdf

Opportunity Finance Network (OFN) CARS™ – CDFI Assessment and Rating System
www.opportunityfinance.net/financing/finance_sub4.aspx?id=56

Rated CDFIs from our District:
Enterprise Community Loan Fund
www.enterprisecommunity.org

Housing Assistance Council
www.ruralhome.org

continued on page 13

VIRGINIA

VIRGINIA COMMUNITY CAPITAL STRIVES TO BE A MODEL FOR STATEWIDE CDFIS

By Courtney Mailey

Virginia Community Capital (VCC), a nonprofit, non-stock bank holding company, serves the Commonwealth of Virginia through both a certified Community Development Financial Institution (CDFI) and Virginia's first community development bank. Since 2005, VCC's evolution has unfolded rapidly when it expanded from a $150,000 community development financial institution offering microloans and individual development accounts to a $15 million lender with a range of community development financial products with capital privatized by state government.

Just as the credit climate began to take its toll on banks around the country, VCC opened a new for-profit subsidiary community development bank, Community Capital Bank of Virginia, in September 2008. VCC's deal flow is rising for some of its products, particularly those financing commercial and residential real estate and healthcare development projects. Since fall of 2008, many Virginia community banks started tightening credit due to market changes, but VCC has continued to lend.

Photo: Courtesy of VCC

VCC celebrates the opening of Community Capital Bank of Virginia at its headquarters in Christianburg, Virginia.

"Sometimes, we will utilize funds from both entities [the CDFI and the bank] in order to mitigate risk and provide flexible capital to a variety of project types," says VCC President Jane Henderson. These projects include developing small businesses, preserving housing projects and building community health facilities.

According to Henderson, the current lending environment helps VCC provide both flexible capital and technical assistance. Moreover, banks have been supportive of VCC's efforts and view the entity as a partner rather than a competitor because of VCC's gap financing capabilities. Other strong partners, such as vendors, clients, correspondent banks, capital providers and accountants, have spent time understanding and analyzing the VCC business model in order to customize products and services to meet VCC's business needs.

VCC plans to grow as a major New Markets Tax Credits player in Virginia by becoming a debt provider, increasing its portfolio of rural small business loans and bringing the community development bank into sustainable profitability by 2011. Future profits will then be channeled into the CDFI and technical assistance activities. "We appreciate Virginia's innovative decision to privatize capital in order to leverage a public-private partnership focused on this mission," said Henderson. "Our goal is to demonstrate the legislators' wisdom in doing this by remaining sustainable well into the future."

For more information about Virginia Community Capital, visit **www.vacommunitycapital.org**.

Courtney A. Mailey is a regional community development manager at the Federal Reserve Bank of Richmond's Community Affairs Office. She conducts outreach in Virginia and southern West Virginia.

***EDITOR'S NOTE:**
Jane Henderson chairs the Federal Reserve Bank of Richmond's Community Development Advisory Council.

South Carolina

South Carolina Community Bank: Poised to Lead Through Economic Change

By Carl Neely

The demand for capital and gap financing has recently increased significantly because financial institutions and businesses remain unsure about future market conditions. A survey polling financial institutions, community development corporations and small businesses in South Carolina indicated an increasing need for gap financing for affordable housing projects.[1] The state has its share of financial institutions; however, only a few focus on building affordable housing or have programs that support small business development.

Since 1999, South Carolina Community Bank (SCCB) has experienced significant growth and has established a niche in both financial and community development-oriented products and services.[2] SCCB plays a dual role as a traditional lender and Community Development Financial Institution (CDFI). SCCB assists with the banking needs of consumers in South Carolina, while the CDFI finances initiatives that rebuild at-risk communities. SCCB's CDFI has formed creative partnerships to sustain their efforts as economic times become more challenging.

As one of a few CDFIs in the state that concentrates its efforts in lower-income areas, SCCB has leveraged its capital base by establishing partnerships with conventional banks such as Carolina First Bank, South Carolina Bank and Trust and First Citizens Bank. "Over the past three years, SCCB has received over $1.1 million from the CDFI Fund's Bank Enterprise Award (BEA) grant in recognition of its efforts in distressed communities," said Clente Fleming, president of SCCB. "The Bank has also used the BEA program to procure deposits and negotiate flexible lending and investment structures from non-CDFI banks. In total, these banks have over $2.3 million in lending and deposits."

In 2008, SCCB helped finance several community projects, including a line of credit to build affordable homes in the Clarendon, S.C., area and supplied working capital to open the Popular Restaurant in Orangeburg, S.C. The restaurant serves 4,200 people weekly and has created approximately 40 jobs in the community. In addition, SCCB provided interim financing for the construction of a shopping center in a low-income area of Columbia, S.C.

SCCB has been designated as a minority-owned financial institution (MOFI). This status allows the organization to target investments and build trust in minority communities that have been historically isolated from access to credit and capital. By collaborating with community-based organizations and historically black colleges and universities in lower-income areas, SCCB has positioned itself as a trusted financial leader in providing credit and banking services in underserved communities.

"South Carolina Community Bank has successfully leveraged its relationships with faith-based organizations such as churches with predominantly minority congregations to conduct financial seminars for youth and adults alike. Many of these outreach sessions result in the opening of new deposit accounts with the Bank, as well as expanded lending opportunities," explained Fleming.

The Bank continues to experience success with its Second Chance checking program, which allows individuals that have had past financial troubles with banks to receive financial literacy training and a "second chance" to build a relationship with SCCB.

South Carolina Community Bank, the fourth largest bank headquartered in South Carolina, has two branches in Columbia, one branch in Sumter, one in Eastover and one in Orangeburg, South Carolina.

For more information on SCCB, visit **www.sccommunitybank.net**.

Carl Neely is a regional community development manager in the Federal Reserve Bank of Richmond's Community Affairs Office. He works out of the Charlotte Office and conducts outreach in North Carolina and South Carolina.

Endnotes:

1. Survey conducted by the Southern Association for Financial Empowerment, a subsidiary of the Southern Association of Community Development Corporations. 2006.
2. **http://findarticles.com/p/articles/mi_m0EIN/is_2004_Sept_17/ai_n6198293**

based on "double-bottom-line" returns. This approach commits community development groups to balancing positive social impact and sound financial performance.

As the community development field matures, the question becomes "How will CDFIs continue to grow and sustain themselves, particularily in challenging economic times?" Nancy Andrews, president

West Virginia

Fund Seeks to Protect the Environment and Create Jobs in Appalachia

By Courtney Mailey

Started as a pilot project by The Conservation Fund in 1999, the Natural Capital Investment Fund (NCIF) promotes environmentally sustainable development by providing affordable, flexible capital and key management assistance to small and emerging businesses that adhere to a "triple bottom line" philosophy.

"For us, a triple bottom line business is usually a small and emerging natural resource-based business that creates jobs while practicing good environmental stewardship," says Marten Jenkins, executive director of NCIF. At a minimum, we are looking for a management team that wants a profitable business while doing right by its employees and the environment."

NCIF operates primarily in economically distressed rural areas in North Carolina, the northeastern portion of Tennessee, Virginia and West Virginia. The organization's portfolio includes 27 firms in industries such as sustainable tourism, green building, value-added and alternative agriculture, alternative and renewable energy, value-added forest products and natural medicines.

NCIF has built its capital base of $4.5 million primarily from federal and foundation sources including the following: the Community Development Financial Institutions Fund, the Calvert Social Investment Foundation, the U.S. Department of Agriculture's Rural Development

Photo: Courtesy of FLS Energy

FLS Energy, a rapidly growing designer and installer of solar systems for residential and commercial customers, is creating jobs while expanding efficient alternative energy options for consumers with financing from NCIF and Mountain BizWorks.

and Intermediary Relending Programs, the Appalachian Regional Commission, the Claude Worthington Benedum Foundation and the Mary Reynolds Babcock Foundation.

Jenkins credits the U.S. Treasury Department's CDFI certification as an important step to building credibility with initial investors. "We continue to build partnerships with local revolving loan funds, regional venture capital groups and banks. What we are doing is still new in this part of Appalachia, so educating financial partners is an ongoing activity," he said. NCIF extended its financing products further in 2008, when it established a partnership with Coastal Enterprises, Inc., to provide access to New Markets Tax Credits for transactions that range from $4 million to $20 million in NCIF's service area.

NCIF builds trust with clients and banks through its technical assistance activities. As creative and flexible financiers, NCIF also connects businesses with professional services. "Accounting services are most in demand, but entrepreneurs need access to other kinds of specialists as well. For example, we were able to identify a food technology specialist in Nebraska to help a firm develop a shelf-stable caramel sauce," said Jenkins. The organization also uses its technical assistance to build relationships between companies in its targeted sectors to develop the potential for flexible production networks. To date, the wood products and forestry sector firms in NCIF's portfolio have demonstrated the most desire to work together on common short-term projects.

Though interest in NCIF funding has increased because of the credit crunch, Jenkins still believes NCIF's greatest value to businesses lies in its ability to provide technical assistance in addition to capital.

For more information about NCIF, visit **www.ncifund.org** or contact Marten Jenkins at (304) 876-2815.

Courtney A. Mailey is a regional community development manager at the Federal Reserve Bank of Richmond's Community Affairs Office. She conducts outreach in Virginia and southern West Virginia.

and executive director of Capital Xchange, discusses the changing capital needs of community development through a paradigm shift she calls "Equity with a Twist." She points out several complex issues facing the community development field today:

- Federal housing production programs for the most part have been eliminated;
- The Low Income Housing Tax Credit has emerged as principle financing for the production of new affordable housing;
- Comprehensive strategies for community development now involve multiple approaches—housing, job training, child care, health care services, small business development and other social services—and multiple layering of public and private funding sources;
- Some community development organizations have steadily accumulated a stable of properties, requiring more sophisticated management techniques and more complex organizational structures; and
- CDFIs are a dynamic part of the rubric of community development finance and are growing at an extraordinary rate.

Andrews argues for the creation of a new form of capital to fit the emerging needs of complex, high-performing community development organizations. "What is needed now is an innovative form of equity, long-term, patient, but highly flexible, capital where yield is measured in social returns, as well as financial returns," she said.

Innovation

Both in economic downturns and times of great prosperity, the clarion call for the community development field to innovate will continue to sound. As organizations that assist underserved markets have changed, so have their customers. To keep pace with changes in demographics, consumer finance behaviors, credit and capital gaps, and technology, public and private entities have begun to explore new ways of serving those who still exist outside of mainstream banking—typically referred to as the unbanked. According to the Treasury's Financial Literacy and Education Commission, 10 million people are considered unbanked or use a variety of alternative financial services. Community development practitioners gather regularly at programs on the topic of innovation to exchange information and best practices. These discussions help practitioners in the field generate new ideas, products, business operations, and information that promote socially responsible enterprises and solutions. CDFIs throughout Fifth District communities have put some of these innovative measures into practice to maintain flows of credit and capital in a weakened economy.

continued from page 9

NCIF
www.ncif.org

Community Development Bankers Association
www.communitydevelopmentbanks.org

National Federation of Community Development Credit Unions
http://natfed.org

FRB San Francisco – Center for Community Development Investments
www.frbsf.org/cdinvestments

Woodstock Institute – CDFI Industry Research
www.woodstockinst.org/programs/cdfi

Aspen Institute – Scale and Sustainability
www.aspeninstitute.org/site/c.huLWJeMRKpH/b.613655/k.70FA/Scale_and_Sustainability.htm

Loan Performance of Community Development Financial Institution (CDFI) Fund Sponsored Institutions
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1106179

Enhancing Access to Community Development Capital: Strategies for Strengthening Low- and Moderate-Income Communities (The Finance Project/Annie E. Casey Foundation)
http://76.12.61.196/publications/community_development_capital.pdf

Community Development Municipal Bonds FRB San Francisco – Investing in CRA – Qualified Municipal Securities
www.frbsf.org/publications/community/investments/cra02-2/qms.pdf

PUBLICATIONS AND RESOURCES

Community Investing Center
www.communityinvest.org/resources/add.cfm#cii

continued on page 16

Comparing Different Types of CDFIs

CDFI Type	Purpose	Start-up Considerations	Governance & Ownership	Regulation
Community Development Bank	To provide capital to rebuild lower-income communities through targeted lending and investment	• Large capital requirement • Compliance with regulatory agencies	For-profit corporation; stock ownership; community representation on board	Federally regulated and insured through the Federal Reserve and state banking agencies
Community Development Credit Union	To promote community ownership of assets and savings, provide affordable credit card and retail financial services to lower-income people with special outreach to minority communities, take deposits and make loans to members	• Requirement to organize communities • Compliance with regulatory agencies	Nonprofit financial cooperatives owned and operated by lower-income persons who are members	Federally and state regulated and insured by the National Credit Union Administration
Community Development Loan Fund	To aggregate capital from individuals and institutional social investors at below-market rates and re-lend this money primarily to non-profit housing and business developers in urban and rural lower-income areas	• Flexible start-up requirements	Nonprofit; community investors, borrowers and technical experts serve on the board and loan committees	Self-regulated; except for nonprofit 501(c)(3) restrictions and state securities law where applicable
Community Development Venture Capital Fund	To provide equity and debt with equity features for medium-sized businesses to create jobs, entrepreneurial capacity and wealth that benefit low-income people and communities	• Large capital requirement	For-profit or nonprofit; varied community representation	Variable; depends on funding sources
Microenterprise Development Loan Fund	To foster social and business development through loans and technical assistance to low-income individuals involved in very small businesses or who are self-employed and unable to access conventional credit	• Flexible start-up requirements	Nonprofit; in-peer lending model, borrower groups make loan decisions	Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit
Community Development Corporation	To revitalize neighborhoods by producing affordable housing, creating jobs and providing social services to low-income communities	• Community participation • Community-directed workplans	Nonprofit; formed by local community residents; operated by a volunteer board; community residents are board members	Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit

CDFI Type	Borrowers	Capital Sources	Financial Products & Services Offered	Technical Assistance Provided
Community Development Bank	Nonprofit community organizations, individual entrepreneurs, small businesses, housing developers	Deposits (often below-market investments) from individuals, institutions and the government	Mortgage financing, home improvement, commercial business, nonprofit and student loans, and consumer banking services	Usually subcontractors or separate subsidiaries offering credit counseling and business planning
Community Development Credit Union	Members of the credit union (usually individuals)	Member deposits and limited nonmember deposits from social investors and the government	Consumer banking services (e.g., savings accounts, check cashing, personal loans and home rehabilitation loans)	Credit counseling and business planning
Community Development Loan Fund	Nonprofit community organizations, social service provider facilities and small businesses	Foundations, banks, religious organizations, corporations, the government, insurance companies and individuals	Construction; pre-development; facilities and business start-up and expansion loans	Extensive guidance before, during and after the loan transaction
Community Development Venture Capital Fund	Invests in small- to medium-sized businesses in distressed communities that hold the promise of rapid growth	Foundations, corporations, individuals and the government	Commercial equity investments and loans with equity features	Extensive technical assistance to portfolio companies, including taking seats on their boards of directors
Microenterprise Development Loan Fund	Low-income individuals and entrepreneurs	Foundations and the government	Microbusiness start-up and expansion	Substantial training and technical assistance in social and business development
Community Development Corporation	Entrepreneurs, home-owners, business owners and consortia of community residents	Banks, foundations, corporations, other private support and the government	Equity investments, mortgage lending, debt financing, linked deposits and individual development accounts	Marketing, business planning, flexible manufacturing networks and business improvement

Source: CDFI Coalition, www.cdfi.org

Photo: Courtesy of Self-Help

Golden Belt, originally a textile factory in Durham, North Carolina, is located in a HOPE VI redevelopment area with high rates of both poverty and unemployment.

Data and measurement will continue to be vital to understanding the changing dynamics of communities and populations in underserved markets and to determining how to better serve them. One of the most successful innovations in the CDFI field has been CARS™—the CDFI Assessment and Rating System—a comprehensive, third-party analysis of community development financial institutions that aids investors and donors in their investment decision-making. This program, created by Opportunity Finance Network (OFN), enables subscribers to use rigorous analyses of metrics on performance, impact, and financial strength to guide investment decisions. New information on energy-efficiency points to green building as the next prospect for community development innovation. A recent report by McGraw-Hill Construction shows that, even during a downturn in the housing market, 2 percent of homes constructed in the U.S. are built green. By 2010, the number of green homes is expected to reach 10 percent. The value today of this market sector is at approximately $7.8 billion.

Looking Forward

The uncertainty in the housing market and the economy presents an opportunity to reassess next steps in community development. In December 2008, the CDFI Fund announced the formation of a new subcommittee that will help the agency make program and policy recommendations on the impact of the current global financial crisis on institutions that the CDFI Fund supports. From tough questions about financing, impact and policy decisions, new ways of thinking and operating can emerge. The next frontier of innovation in community development may be well within reach.

Angelyque Campbell is the senior manager, and Jennie Blizzard is the team leader of the Community Affairs Office at the Federal Reserve Bank of Richmond.

ENDNOTES:

[1] Donovan, William, "Why Community Development Banks are Surviving the Financial Crisis" **http://socialinvesting.about.com/od/sriinvestorconcerns/a/SRICommDevBnks.htm?p=1**

[2] CDFI Fact Sheet **http://cdfi.org/uploads/other/CDFI_Fact_Sheet.pdf**

[3] Comparing Different Types of CDFIs **http://cdfi.org/index.php?page=info-3**

[4] **www.greenbuildinginsider.com/articles/20081021_1**
www.nw.org/network/training/documents/01GreenHomeBuildingtheNumbers.doc

continued from page 13

Equity Equivalent Investments
www.frbsf.org/publications/community/investments/cra02-2/equity.pdf

Knowledgeplex – Financial Strategies and Tools
www.knowledgeplex.org/topic.html?c=286

Community Development Venture Capital Alliance – CDVC Funds by State
www.cdvca.org/about/states/index.php

Low-Income Housing Tax Credits (LIHTC)
www.hud.gov/offices/fheo/lihtcmou.cfm

HUD's LIHTC data sets/database
www.huduser.org/datasets/lihtc.html

OCC Insights – LIHTCs: Affordable Housing Investment Opportunities for Banks
www.occ.treas.gov/ftp/release/2008-10a.pdf

New Markets Tax Credits
www.cdfifund.gov/what_we_do/programs_id.asp?programID=5

FRBSF – Community Investments Online "Making the New Market Tax Credits Count"
www.frbsf.org/publications/community/investments/0308/article1a.html

Fifth District CDFI Opportunity Finance Network Member Organizations

CDFI	Address	Telephone	Web Address	Area Served	Organization Type	Lender Type
Community Development Transportation Lending Services	1341 G Street, NW 10th Floor Washington, DC 20005	(202) 415-9682	www.ctaa.org	National	Loan Fund	Business
Housing Assistance Council, Inc.	1025 Vermont Avenue, NW Suite 606 Washington, DC 20005	(202) 842-8600	www.ruralhome.org	National	Loan Fund	Housing
National Housing Trust Community Development Fund	1101 30th Street, NW Suite 400 Washington, DC 20007	(202) 333-8931	www.nhtinc.org	National	Loan Fund	Housing
Partners for the Common Good	1801 K Street, NW Suite M-100 Washington, DC 20006	(202) 689-8935	www.pcgloanfund.org	DC	Loan Fund	Housing, Other, Community Facilities, Business
Baltimore Community Lending	120 East Baltimore Street Suite 1350 Baltimore, MD 21202	(410) 727-8590	www.bclending.org	MD	Loan Fund	Housing
Calvert Social Investment Foundation	7315 Wisconsin Avenue Suite 1100 W Bethesda, MD 20814	(800) 248-0337	www.calvertfoundation.org	MD	Loan Fund	Intermediary
Community Capital of Maryland	2700 Lighthouse Point East Suite 310 Baltimore, MD 21224	(410) 732-9571	www.communitycapitalofmaryland.org	MD	Loan Fund	Housing
Enterprise Community Loan Fund	10227 Wincopin Circle Suite 500 Columbia, MD 21044	(410) 964-1230	www.enterprisecommunity.org	MD	Loan Fund	Housing
NeighborWorks Capital	1100 Wayne Avenue Suite 610 Silver Spring, MD 20910	(240) 821-1651	www.neighborworkscapital.org	Nationwide	Loan Fund	Housing
OpenDoor Housing Fund	8605 Cameron Street Suite 200 Silver Spring, MD 20910	(301) 588-5533	www.opendoorhousingfund.org	DE, MD, VA	Loan Fund	Housing
Mountain BizWorks	153 South Lexington Avenue Asheville, NC 28801	(828) 253-2834	www.mountainbizworks.org	NC	Loan Fund	Microenterprise
NC Community Development Initiative, Inc.	2209 Century Drive Second Floor Raleigh, NC 27612	(919) 828-5655	www.ncinitiative.org	NC	Loan Fund	Housing, Community Service
Self-Help & Affiliates	301 West Main Street Durham, NC 27701	(800) 476-7428	www.self-help.org	National	Loan Fund, Credit Union	Business, Housing, Community Facilities, Microenterprise
SJF Ventures	400 West Main Street Suite 604 Durham, NC 27701	(919) 530-1177	www.sjfund.com	National	Venture Capital	Business
Piedmont Housing Alliance	111 Monticello Avenue Suite 104 Charlottesville, VA 22902	(434) 817-2436	www.piedmonthousingalliance.org	VA	Loan Fund	Housing
Richmond Economic Development Corporation	411 East Franklin Street Suite 203 Richmond, VA 23219	(804) 780-3012	www.redcfinance.org	Richmond, VA	Loan Fund	Business, Microenterprise
Virginia Community Capital, Inc.	990 Cambria Street, NE Christiansburg, VA 24073	(540) 260-3126	www.vacommunitycapital.org	VA	Loan Fund	Housing
Virginia Community Development Corporation	1840 West Broad Street Suite 200 Richmond, VA 23220	(804) 343-1200	www.vacdc.org	VA	Loan Fund	Housing
Natural Capital Investment Fund, Inc.	1098 Turner Road Shepherdstown, WV 25443	(304) 876-2815	www.wvncif.org	NC, TN, VA, WV	Loan Fund, Venture Capital	Business

Source: Opportunity Finance Network's member list

DISTRICT HIGHLIGHTS COMPILED BY Jennie Blizzard, Ellen Janes, Courtney Mailey and Carl Neely

D.C. Mayor Implements Major School Modernization Plan

In September, Mayor Adrian M. Fenty unveiled the city's 2008 Master Facilities Plan (MFP). The 2008 MFP organizes school modernization into three categories based on the component being modernized: academic, support and systems. The plan will be implemented through a phased approach. During the first phase, the city will focus on the academic components—aggressive improvement of the learning environment is the immediate priority. For the second phase, support and systems components will be prioritized beyond the first five years. Where necessary, immediate concerns will be addressed to ensure buildings remain stable and supportive of academic programs. "The Master Facilities Plan is the road map that the Office of Public Education Facilities Modernization will use to deliver world-class public school facilities faster and more cost effectively," said Mayor Fenty. "Whereas previous plans established a prolonged approach that left too many schools waiting while a select few were being rebuilt, this plan will dramatically change the face of every school in the District within the next five years." More than 114 schools have already received major facilities work that will serve as building blocks for the overall modernization program. For a complete copy of the plan, visit **http://newsroom.dc.gov**.

Film Examines Transportation

The Baltimore-based Annie E. Casey Foundation has released *Pursuit of the Dream: Cars & Jobs in America*, a documentary that demonstrates the importance of reliable transportation to low-wage working families and communities. The film examines the difficulties experienced by car buyers vulnerable to unfair lending practices and strategies for providing affordable, reliable cars to low-wage workers. More than 150 nonprofit organizations are focused on increasing private auto ownership for working families, and their experiences offer valuable insight for other service providers and communities. For more information, visit **www.mobilityagenda.org/carfinancing** and **www.opportunitycars.com**. For a free copy of the film, visit **www.aecf.org**.

Community Development in the Context of Creativity

On October 20-22, 2008, nearly 400 community development practitioners and leaders from across the state gathered at Create West Virginia's second annual statewide community development conference. Create West Virginia encourages community collaboration and creative industries throughout the state to form a new vision for its economy. According to Jeff James, conference chair, "We want to celebrate communities that are taking matters into their own hands and setting a shared vision for the future. We're encouraging people to look past West Virginia's current economic rankings and focus on what is possible."

According to conference organizer Rob Godbey, "Leaders across all disciplines are really responding to the need for a new approach to creating opportunities of this state." This year, Create West Virginia exposed community development practitioners to thought leaders in education, technological development, diversity and inclusion, small town revitalization, business development, strategic planning and resource development to support community development efforts. For more information about Create West Virginia, go to **www.createwv.com** or contact Jeff James at **jeffj@mythologymarketing.com** or (304) 346-2230 ext.100.

Ports Authority "Pledges" Environmental Consciousness

South Carolina has one of the busiest seaports in the United States. In 2007, it was the sixth busiest cargo port in the country. This summer the South Carolina State Ports Authority launched a public awareness program—"Pledge for Growth" that encourages businesses and community leaders to explore ways of enhancing growth while protecting the environment. The initiative includes a web site that offers suggestions and allows users to commit to efforts related to land, air, water and people. The Ports Authority supports responsible growth that offers opportunities for better jobs, stronger communities and a cleaner, healthier environment. The Ports Authority has collaborated with the Lowcountry Alliance for Model Communities and has granted more than $4 million for community enhancements, job training, community centers and other enrichment initiatives. For more information, visit **www.pledgeforgrowth.com/people.asp**.

Core Beliefs Program Shapes Attitudes about Money

As part of its HomeBuy5 financial education program, Virginia Supportive Housing (VSH) augments FDIC's *Money Smart* curriculum with a novel training program on attitudes about money. VSH incorporated the Core Beliefs training into HomeBuy5 in 2004, after it became clear that financial literacy and even one-on-one counseling sessions were not sufficient for clients to meet their personal and financial goals. The program identifies deep-seeded beliefs about money that act as barriers to financial stability. According to Salathia Johnson, the program's director, "We added Core Beliefs after we noticed a pattern of clients sabotaging themselves just as their goal was in sight in the last year."

Clients include low-wage earners, families with young children and individuals or families living in shelters or transitional housing or are at risk of becoming homeless. Core Beliefs helps clients adopt new beliefs and behaviors to rebuild credit, balance their monthly budgets, eliminate outstanding debt and accumulate savings. Clients examine past choices that did not serve their best financial interests even when they had sufficient information to understand the long-term consequences. Some Core Beliefs clients are also eligible for their savings accumulated during the training period to be matched at a rate of $2 to $1 for the first $2,000 saved.

The curriculum requires clients to commit to five years of training and savings toward the purchase of a home. Since adding the Core Beliefs component, most clients are now able to reach their financial goals within three years of starting HomeBuy5, rather than five.

To learn more about Core Beliefs, contact Salathia Johnson at (804) 836-1054 or **sjohnson@virginiasupportivehousing.org**.

Joining Forces to Measure Success

The North Carolina Association of Community Development Corporations has collaborated with NeighborWorks America to pilot a program to measure success among community development corporations in North Carolina. The Success Measures program uses a method of participatory evaluation designed by and for community-based organizations and their stakeholders to document outcomes, measure impact and effect change. The system uses 44 distinct indicators to gauge impact in three areas: affordable housing, community building and economic development. The innovative system provides organizations and funders with the tools they need to make the case for community economic development investments. For more information on Success Measures, visit **www.nw.org/network/comstrat/measuringWhatMatters/default.asp**. For more information about the North Carolina pilot program, contact Sue Perry Cole, executive director of the North Carolina Association of Community Development Corporations, at (919) 831-9710.

Fed Seeks Comments on Proposed Changes to Regulation Z (Truth in Lending)

On December 5, 2008, the Federal Reserve Board proposed for public comment changes to Regulation Z (Truth in Lending) that would revise the disclosure requirements for mortgage loans. The revisions would implement the Mortgage Disclosure Improvement Act (MDIA), enacted in July 2008, as an amendment to the Truth in Lending Act (TILA).

The MDIA seeks to ensure that consumers receive cost disclosures earlier in the mortgage process. In several respects, the MDIA is very similar to final rules issued by the Board in July 2008. However, the MDIA also broadens and adds to those regulatory requirements.

The MDIA requires creditors to give good faith estimates of mortgage loan costs ("early disclosures") within three business days after receiving a consumer's application for a mortgage loan and before any fees are collected from the consumer other than a reasonable fee for obtaining the consumer's credit history. These requirements are consistent with the July final rule, which applied to loans secured by a consumer's principal dwelling. The MDIA has broadened this requirement by requiring early disclosures for loans secured by dwellings other than the consumer's principal dwelling, such as a second home. Under the MDIA, the proposed rules would become effective on July 30, 2009. The public comment period ends February 9, 2009. For more information, visit **www.federalreserve.gov/newsevents/press/bcreg/20081205a.htm.**

Photo: Getty Images/Ken Orvidas

"Despite the challenges, community banks recognize the importance of our community development work. With the support of local financial institutions, Lowcountry continues to find solid access to gap and start-up financing."

– Tammy Hoy
Lowcountry Housing Trust

CDFIs Discuss Capital Options During Difficult Times

By Sarah Eckstein

We asked five community development finance professionals in the Fifth District about how they are managing their business during the recent credit crunch. By shedding light on their different approaches to remain sustainable during challenges in the financial market, we hope these ideas seed new thoughts for other CDFIs.

How has your organization been able to navigate the current funding environment in a weak economy and maintain capital reserves?

VCC is fortunate to have both a CDFI and a bank (Community Capital Bank of Virginia) with ample existing capital in its structure. These two sources of capital under the VCC umbrella give us flexibitily to consider and fund a range of loan requests. In addition, we have developed funding partnerships with other CDFIs and the Community Bankers Bank which enables us to find funding partners on a participation basis. Our CDFI also has access to funding for New Markets Tax Credit transactions with the Community Reinvestment Fund.

VCC's strategic partnerships with a variety of funding providers has enabled our organization to consider transactions that, today, many larger lenders are unable to entertain due to liquidity issues. It is these strategic partnerships that provide both liquidity and flexibility in meeting the current credit needs of affordable housing developers, small businesses and nonprofit organizations.

William E. Skeen
Chief Credit Officer, Virginia Community Capital, Inc.

Lowcountry Housing Trust in South Carolina maintains its revenue through designated state and local government grants and legislative appropriations. Although the dedicated government revenue has continued to flow, Lowcountry is developing a strategy to leverage the public funds with private entities. To continue its service as a CDFI and housing trust, we are looking to expand partnerships with private family foundations, corporate entities and community banks focusing on CRA.

We are facing some challenges in light of the current market conditions, including contending with government budget cuts, declining tax credit values and securing permanent financing. Despite the challenges, community banks recognize the importance of our community development work. With the support of local financial institutions, Lowcountry continues to find solid access to gap and start-up financing.

Tammy Hoy
Executive Director, Lowcountry Housing Trust

The current market turmoil has impacted our ability to raise capital from the banking community in our four-state service area—North Carolina, Northeast Tennessee, Virginia and West Virginia. As credit policies tighten, banks have become less willing to lend to intermediary financial organizations such as NCIF; the collateral we can offer is our loan porfolio, which is populated predominantely by early-stage and start-up businesses in rural markets. The market downturn has also adversely impacted private foundations. Several foundations have told us that declining endowments have caused limitations in their future grants and program-related investments to existing grantees, at least for the present time.

As a result we are working hard to diversify our funding base. We plan to approach socially motivated individuals and faith-based organizations for low-interest debt. Individuals and religious institutions represent approximately 12 percent of the borrowed capital base of our industry peers (rural CDFIs). We feel, given our mission, they represent a significant source of untapped capital for our work.

We have also partnered with CEI Capital Management LLC, a New Markets Tax Credits allocatee, to provide access to capital for projects in eligible low-income areas.

It is especially important for us to have more capital to put to work in the current credit market. We expect that as they grow, our portfolio companies will have greater difficulty raising capital from traditional lenders. We want to be ready to continue to support their growth.

Marten Jenkins
Executive Director, Natural Capital Investment Fund

We've definitely seen a slowdown in the number of requests for small business loans across Maryland. Many entrepreneurs fear there are fewer loans available, however funding for the loans has not dried up.

For us, finding resources to support our business operations is always tight for us because there is so much competition for the funds. We are crossing our fingers to see whether the new administration will change funding opportunities.

We are in the process of implementing a strategy to broaden our sources. We are looking more to foundations and private companies who are willing to give $250,000 that we can then turn into loans for community development projects.

Hayley Gallagher
Executive Director, Maryland Capital Enterprises

“We've definitely seen a slowdown in the number of requests for small business loans. Many entrepreneurs fear there are fewer loans available, however funding for the loans has not dried up.”

– Hayley Gallagher
Maryland Capital Enterprises

In order to continue to address the investment needs of low- to moderate-income communities in the current market climate, the North Carolina Community Development Initiative Capital, Inc. (Initiative Capital) has built a flexible structure that provides access to both private and public capital. We rely heavily on our relationship with regional banks to help navigate the uncertainty within today's credit/capital markets and raise capital.

As a result of the current market conditions, we have employed multiple strategies to ensure its sustainability while continuing its mission of providing access to capital for projects in low- to moderate-income communities. For instance, for the next 24 months, we are only undertaking loans that reflect a double bottom line for us—the project fits our mission and demonstrates a yield. Additionally, no loan will be underwritten without a clear, concise exit/debt repayment strategy for the borrower. We are also informing our borrowers seeking loan restructuring for maturing loans that we will require a percentage of the balloon to be repaid before we begin the debt restructuring process. With the decline in the real estate market, we may require our borrowers to obtain a new appraisal for property which they are using to collateralize the restructured loan. The reduction in available credit has forced us to be more candid with our customers about the cost of capital.

While the cost of capital may be vastly lower for some of our investors, this does not necessarily translate into a reduced interest rate to us as a borrower. In fact, we have had discussions with some of our lenders who are attempting to enforce stricter loan covenants or seeking to have a significant portion (accelerated payment) of the outstanding balance of our credit lines paid down to reduce their exposure. To mitigate this discussion, we are being proactive in our approach by increasing dialogue with our lenders about our loan portfolio. We have had to reflect this market domino effect on our pricing of loans. We believe these strategies will provide for the continued sustainability of Initiative Capital.

Aundra C. Wallace
Senior Vice President of Commercial Real Estate, North Carolina Community Development Initiative, Inc.

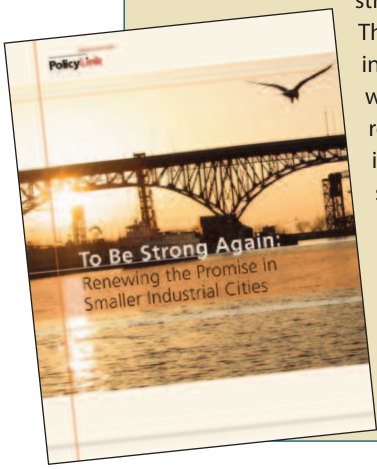
Sarah Eckstein is a project specialist in the Federal Reserve Bank of Richmond's Community Affairs Office.

To Be Strong Again: Renewing the Promise in Smaller Industrial Cities

Now, smaller industrial cities struggle to find their way in the face of an ever-changing global economy and the inequitable effects of sprawling growth patterns. Residents of these cities are some of the most isolated in neighborhoods that lack good jobs, strong schools and quality housing. This report spotlights the wisdom, innovation and successes of those working to promote equitable renewal of smaller industrial cities. It offers a forward-looking vision of what these cities can become with the right set of policies, programs and investments.

AUTHORS

RADHIKA FOX AND MIRIAM AXEL-LUTE



Economically smaller industrial cities can fill a gap in location options for businesses and households in the nation: opportunity-rich, dynamic cities, well-linked to the larger region, but offering the intimacy of a smaller scale. *— Excerpt from the report.*

www.policylink.org/ToBeStrongAgain.pdf

Federal Reserve System Conference on Housing and Mortgage Markets

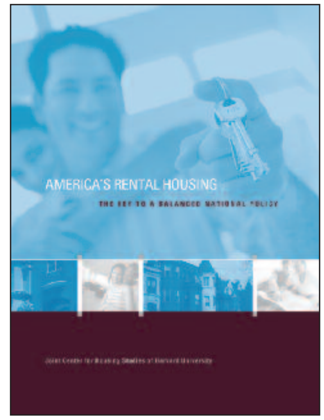
Over the past 15 years, there have been dramatic changes in housing and mortgage markets, including broader access to credit, increased homeownership, appreciation of housing prices and the recent large increase in mortgage foreclosures. As part of its Homeownership and Mortgage Initiatives, on December 4, the Federal Reserve System sponsored a research conference to advance the understanding of the causes and consequences of these developments as well as potential policy responses. The program included presentations of research papers with discussants and a policy panel that included Governor Randall S. Kroszner. The following papers were discussed:

ORGANIZATION

THE FEDERAL RESERVE SYSTEM

- “Subprime Mortgages”
- “Consumption and Savings of First-Time House Owners: How Do They Deal with Adverse Income Shocks?”
- “Stochastic House Appreciation and Optimal Mortgage Lending”
- “Lending in Low- and Moderate-Income Neighborhoods in California: The Performance of CRA Lending During the Subprime Meltdown”
- “Forced Sales and House Prices”
- “Interest Rate Fluctuations and Equilibrium in the Housing Market”
- “Household Expenditures, Wages, Rents”
- “State Mortgage Foreclosure Policies.”

To access these papers, visit: **www.richmondfed.org/conferences_and_events/research/2008/housing_and_mortgage_markets.cfm?cc_view=print**



America’s Rental Housing: The Key to a Balanced National Policy

The report examines recent mortgage market events in the context of long-standing affordability problems that plague millions of renters. Fueled by record foreclosures and sluggish home sales, the share of households owning a home is declining, while the number of renter households jumped by nearly one million last year, or more than four times the pace of renter growth over the 2003 to 2006 period. Despite the growing signs of economic weakness, monthly rents last year reached a record high of $775.

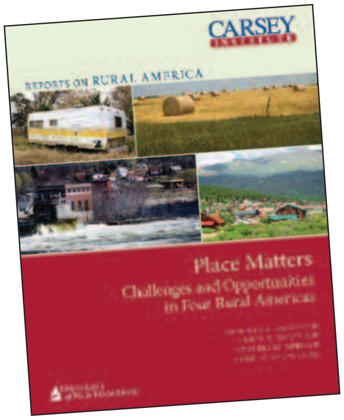
ORGANIZATION

THE JOINT CENTER FOR HOUSING STUDIES

The report also observes that rising foreclosures and the resulting turmoil in credit markets raises the costs of financing rental housing construction and preservation. Last year, completions of multifamily units for rent fell to 169,000 units—just two-thirds of the 2002 figure and only one-third of the 1986 record high. The blighting influence of vacant and foreclosed properties also will accelerate the abandonment of low-cost rental properties in distressed neighborhoods, further limiting the supply of affordable housing.
— Excerpt from the report.

www.jchs.harvard.edu/publications/rental/rh08_americas_rental_housing/index.html

Place Matters: Challenges and Opportunities in Four Rural Americas



In 2007, researchers at the Carsey Institute at the University of New Hampshire completed the first stages of the Community and Environment in Rural America (CERA) survey. Nearly 8,000 residents in 19 carefully selected rural counties were interviewed in the comprehensive survey to determine their opinions, experiences and attitudes about the changes occurring in their lives, in the lives of their families and in their communities. Carsey also examined rural life using socioeconomic, cultural and demographic indicators as guides, rather than notions of what "rural" means. The CERA survey analysis focused on five main issues that have emerged as particularly salient for understanding the state of rural areas of America today.

ORGANIZATION

THE CARSEY INSTITUTE

- Economic changes, challenges and realities
- Migration and demographic changes
- Religion, trust and civil institutions
- Environment, natural resources and energy and
- Infrastructure and changing populations.

Carsey examined communities in the Rocky Mountain, the Midwest, the Southeast and the Northwest/Northeast.
— *Excerpt from the report.*
http://carseyinstitute.unh.edu/publications/Report_PlaceMatters.pdf

Tackling the Mortgage Crisis: 10 Action Steps for State Government

AUTHOR

ALAN MALLACH

The mortgage foreclosure crisis has become an issue of growing concern over the past two years. While most attention has focused on what the federal government should do to manage the fallout, states, too, play a vital role in the process. This paper describes the beginnings of the mortgage crisis and the damage it has inflicted thus far. It then provides a set of concrete action steps that states can take to mitigate its impact on families and neighborhoods and prevent a similar situation from occurring in the future.
— *Excerpt from the report.*
www.brookings.edu/~/media/Files/rc/papers/2008/0529_mortgage_crisis_vey/0529_mortgage_crisis_vey.pdf

Consumer and Mortgage Credit at a Crossroads: Preserving Expanded Access While Informing Choices and Protecting Consumers

AUTHORS

ERIC BELSKY AND REN S. ESSENE

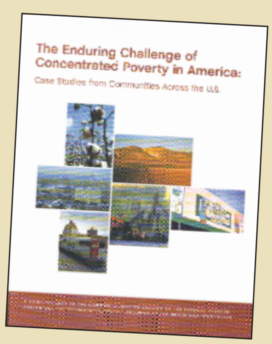
This paper briefly explores trends in the use of debt by consumers in the United States and the reasons for these trends, as well as their possible implications. It then traces the evolution of the risk-based pricing and unbundled, capital-market funded credit systems. The paper also examines the special challenges, risks and opportunities that the relatively new and rapidly evolving risk-based pricing system poses for consumers, credit providers, financial intermediaries, regulators and community groups. Lastly, it examines how these constituencies can respond to these challenges, risks and opportunities and to the difficulties they face in doing so. — *Excerpt from the report.*
www.jchs.harvard.edu/publications/finance/understanding_consumer_credit/papers/ucc08-1_belsky_essene.pdf

The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.

AUTHORS

THE COMMUNITY AFFAIRS OFFICES OF THE FEDERAL RESERVE SYSTEM AND THE METROPOLITAN POLICY PROGRAM AT THE BROOKINGS INSTITUTION

The Community Affairs Offices of the Federal Reserve System partnered with the Brookings Institution to examine the issue of concentrated poverty. The resulting report, *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.*, profiles 16 high-poverty communities from across the country, including immigrant gateway, Native American, urban, and rural communities. Through these case studies, the report contributes to our understanding of the dynamics of poor people living in poor communities and the policies that will be needed to bring both into the economic mainstream.



The Fifth District Communities of West Greenville, North Carolina and McDowell County, West Virginia, were studied for this report.
www.richmondfed.org/community_development/emerging_issues/reports/concentrated_poverty_report.cfm

Housing and Economic Recovery Act of 2008

(Public Law 110-289, effective July 30, 2008)

Key Provisions:

Neighborhood Stabilization Program

Administered through the U.S. Department of Housing and Urban Development (HUD), the Neighborhood Stabilization Program (NSP) will provide grants to every state and certain local communities to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. For information on eligibility requirements and permissible uses, visit **www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg**.

Hope for Homeowners

The program will refinance mortgages for borrowers—owner occupants only—who are having difficulty making their payments, but can afford a new loan insured by HUD's Federal Housing Administration (FHA). The program offers 30-year fixed rate mortgages and government insurance to lenders who voluntarily reduce mortgages for at-risk homeowners to at least 90 percent of the property's current value. The HOPE for Homeowners program ends on September 30, 2011. For more information, call (800) 225-5342 or visit **www.hud.gov/hopeforhomeowners**.

The "Federal Housing Finance Regulatory Reform Act of 2008"

This act modernizes the regulation of the housing government-sponsored enterprises—Fannie Mae and Freddie Mac (the enterprises) and the Federal Home Loan Banks (FHLBs)—and expands the housing mission of these GSEs. The new, independent regulator for the enterprises and the FHLBs is the Federal Housing Finance Board (FHFB), an independent federal body created as the successor regulatory agency resulting from the statutory merger of the Federal Housing Finance Board (FHFB) and the Office of Federal Housing Enterprise Oversight (OFHEO). Read more about FHFB at **www.fhfb.gov**.

Emergency Economic Stabilization Act of 2008

(Public Law 110-343, effective October 3, 2008)

The Emergency Economic Stabilization Act of 2008 (EESA) authorizes the U.S. Secretary of the Treasury to spend up to $700 billion for the purchase of failing bank assets, including mortgage-backed securities, through the Trouble Asset Relief Program (TARP). EESA also requires the Treasury to modify troubled loans. For information related to EESA, visit **www.treasury.gov/initiatives/eesa**.

Photo: Courtesy of Federal Reserve Board of Governors

"Some critics of the CRA contend that by encouraging banking institutions to help meet the credit needs of lower-income borrowers and areas, the law pushed banking institutions to undertake high risk mortgage and lending. We have not yet seen empirical evidence to support these claims, nor has it been our experience in implementing the law over the past 30 years that the CRA has contributed to the erosion of safe and sound lending practices."

– Randall S. Kroszner
Governor, Federal Reserve Board

http://www.federalreserve.gov/newsevents/speech/kroszner20081203a.htm

COMING SOON...

The Federal Reserve Bank of Richmond and the HOPE NOW Alliance are partnering to bring foreclosure-prevention workshops and borrower clinics to the Fifth District in 2009. Continue to check ***www.richmondfed.org/community_development*** *for event dates.*

HOPE NOW, an alliance between HUD-approved counseling agents, servicers, investors and other mortgage market participants, provides free foreclosure prevention assistance. To learn more about HOPE NOW, visit ***www.hopenow.com/site_tools/faqs.php****.*

SAVE THE DATE ▪ April 16-17, 2009
Innovative Financial Services For The Underserved

The Federal Reserve System's Sixth Biennial Community Affairs Research Conference to encourage objective research on financial services issues affecting low- and moderate-income individuals, families and communities.

Where: Renaissance Hotel, Washington, D.C.

Keynote Speaker: Ben S. Bernanke,
Chairman of the Board of Governors of the Federal Reserve System

Original research on the following topics will be featured:

- Trends in Financial Services Innovation
- Innovative Financial Services: Who Benefits?
- Innovative Financial Services as an Entry Point into the Financial Mainstream
- Too Much or Too Little Access to Financial Services? The Trade-Off Between Consumer Access and Protection
- Is Financial Literacy Keeping Up with Financial Services Innovation?
- The Evolution of Financial Services: Implications for Economic Mobility

For more conference updates, visit www.federalreserve.gov/communitydev/default.htm.

To order previous issues of *MARKETWISE,* visit:

www.richmondfed.org/publications/community_development/marketwise/index.cfm

THE FEDERAL RESERVE BANK OF RICHMOND
RICHMOND ▪ BALTIMORE ▪ CHARLOTTE

Post Office Box 27622 · Richmond, VA 23261
www.richmondfed.org

CHANGE SERVICE REQUESTED

Presorted Standard
U.S. POSTAGE PAID
Permit No. 2
Richmond, VA