
Photo: Getty Images/Ken Orvidas

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 non-profit 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

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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

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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
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