

The Early Stages: CDFI Start-Up Issues

A Webinar Series for Community Development Financial
Institutions (CDFIs)

July 16, 2013

Organized by the Federal Reserve Bank of Richmond

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Welcome

Thank you to everyone for joining this session.

Jen Giovannitti

Regional Community Development Manager
Federal Reserve Bank of Richmond



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Logistics

For today:

- This call is being recorded.
- An archived recording of this session will be available at http://www.richmondfed.org/conferences_and_events/community_development/
- Please direct your email questions to jen.giovannitti@rich.frb.org or click the Q&A button at the top of the Live Meeting toolbar. These questions may be part of the recorded archive for this session.

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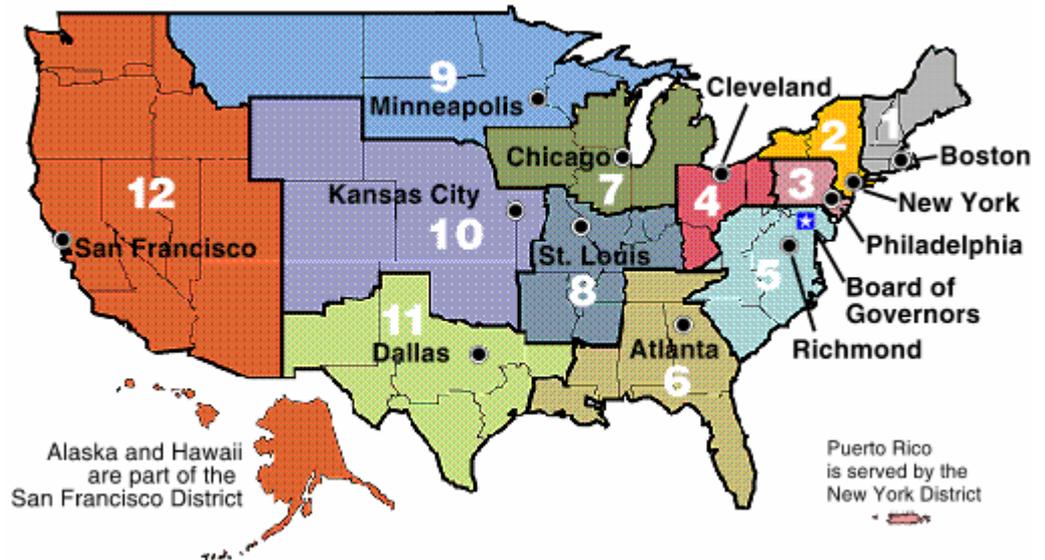


Community Development at the Federal Reserve Banks

In 1981, the Federal Reserve System established the Community Affairs program in each of the 12 Federal Reserve Banks.

The mission of the Community Development Department at the Federal Reserve Bank of Richmond is to support the economic growth objectives of the Federal Reserve Act by working with public and private partners to resolve credit and development issues in low-and moderate-income communities.

At the Richmond Bank, our department is called Community Development (CD).



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Additional Resources from the Federal Reserve Bank of Richmond

Community Scope:

http://www.richmondfed.org/publications/community_development/community_scope/2010/vol01_issue01.cfm

CDFI directory:

http://www.richmondfed.org/community_development/resource_centers/cdfi/pdf/cdfis_in_the_southeast_directory_2011.pdf

Special publication on CDFIs:

http://www.richmondfed.org/community_development/announcements/2011/pdf/cdfi-special-2011.pdf

CDBs peer group analysis:

http://www.richmondfed.org/community_development/resource_centers/community_development_bank/index.cfm#tabview=tab1

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Agenda

- CDFI Certification
- Ways and approaches to capitalizing your Fund
- Moderated discussion between a newly formed CDFI and two experienced CDFI leaders who can reflect upon the things they did and didn't do well in their early years

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Today's Presenters

- CDFI Certification
 - Michelle Dickens, *Senior Certification and Compliance Officer*, U.S. Department of the Treasury, CDFI Fund
- Capitalizing Your Fund
 - Charlene van Dijk, *Portfolio Manager*, U.S. Department of the Treasury, CDFI Fund
- Experienced CDFI Executives Discuss the Key Areas of Focus in the First Year
 - (Moderator) Karen Jacobson, *Loan Fund Manager*, Woodlands Community Lenders
 - Shaw Canale, *Chief Executive Officer*, Mountain BizWorks.
 - Marten Jenkins, *President*, Natural Capital Investment Fund

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CDFI Certifications

Michelle Dickens

Senior Certification and Compliance Officer
U.S. Department of the Treasury, CDFI Fund



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CDFI Fund Mission & Vision

- CDFI Fund's mission:
 - The mission of the Community Development Financial Institutions Fund (CDFI Fund) is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the U.S.
 - CDFI Fund's vision:
 - The vision of the CDFI Fund is to economically empower America's underserved and distressed communities.

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CDFI Fund Programs

- The CDFI Fund invests in and support CDFIs, CDEs, and other financial institutions through:
 - Community Development Financial Institutions Program (CDFI Program) & Native American CDFI Assistance Program (NACA Program)
 - Financial Assistance (FA) Awards
 - Technical Assistance (TA) Grants
 - Healthy Foods Financing Initiative (HFFI-FA)
 - Capacity Building Initiative
 - Bank Enterprise Award Program (BEA Program)
 - New Markets Tax Credit Program (NMTC Program)
 - CDFI Bond Guarantee Program

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CDFI Fund Overview

- Accomplishments since inception in 1994:
 - Invested over \$1.7 billion to community development organizations and financial institutions (CDFI/Native/BEA)
 - Allocated \$36.5 billion (NMTC)



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CDFI Fund Overview (continued)

- CDFI Program & NACA Program purpose:
 - Promote economic revitalization and community development help build the capacity of CDFIs to serve eligible target markets
 - Leverage CDFI Fund resources



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CDFI Certification

- CDFI certification:
 - A certified CDFI is a for-profit or not-for-profit entity that meets the following requirements:
 - Is a legally existing entity
 - Has a primary mission of community development
 - Is predominantly a financing entity
 - Provides development services in conjunction with financing
 - Principally serves a target market
 - Is accountable to the target market
 - Is a non-governmental entity

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CDFI Certification (continued)

- CDFI Certification:
 - Certified CDFI types:
 - Loan Funds
 - Credit Unions
 - FDIC-Insured Community Banks
 - Bank Holding Companies
 - Community Development Venture Capital Funds
- CDFI depository institutions: average asset size is \$32 million
- CDFI non-depository institutions: average asset size is \$21 million

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CDFI Certification (continued)

- Resources:
 - www.CDFIFUND.Gov
 - Monthly CDFI certification conference calls
 - Helpdesk Email: CME@CDFI.TREAS.GOV
 - Helpdesk Telephone: (202) 653-0423



Capitalizing Your Fund

Charlene van Dijk

Portfolio Manager

U.S. Department of the Treasury CDFI Fund



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How Do I Get Funds for My Organization?

- Fundraising or “capitalization” entails identifying sources and types of funds, as well as engaging in capital planning:
 - It is essential to have a strategy regarding what types of capital you will target and how the funds will be used.
 - You should consider the mix of funds you will be obtaining and how they will affect the overall financial position of your organization.
 - Be aware of the “strings attached” to capital up front, if not, this can cause headaches later on.

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How Do I Get Funding for My Organization if My Organization Is...

<u>Not a certified CDFI?</u>	<u>A certified CDFI?</u>
CDFI Fund Technical Assistance awards	CDFI Fund Technical Assistance awards
CDFI Financial Assistance awards (if the organization is “certifiable”)	CDFI Financial Assistance awards
Banks	Banks
Foundations	Foundations
Religious Investment Funds	Religious Investment Funds
Other Government Agencies	Other Government Agencies
Individuals	Individuals

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FY 2013 CDFI Program: Technical Assistance

CDFI Program Technical Assistance (TA)	
Eligibility	Certified, Certifiable, and Emerging CDFIs
Award Type	Grants with no matching funds requirement.
Award Amount	Up to \$100,000 for capacity-building activities.
Use of Funds	(i) Personnel/Salary; (ii) Personnel/Fringe benefits; (iii) Professional Services; (iv) Travel; (v) Training; and/or (vi) Equipment.
Reporting Period	2 years (as specified in each Awardee's Assistance Agreement)
Limitations on Awards	Applicants may apply for either FA or for TA, but not for both.

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FY 2013 CDFI Program: Financial Assistance

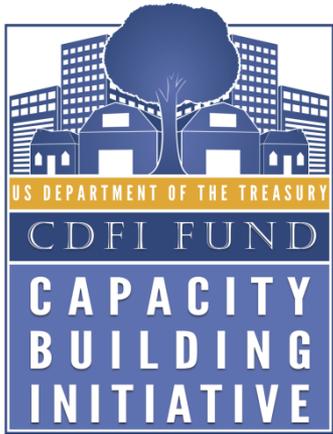
CDFI Program Financial Assistance (FA)	
Eligibility	Certified & Certifiable CDFIs
Award Type	Applicants are required to provide dollar for dollar matching funds.
Award Amount	<ul style="list-style-type: none"> • Category I/Small and/or Emerging CDFI Assistance (SECA) up to \$600,000. • Category II/Core up to \$2 million.
Use of Funds	(i) Financial Products; (ii) Financial Services; (iii) Development Services; (iv) Loan Loss Reserves; and/or (v) Capital Reserves.
Reporting Period	3 years (as specified in each Awardee's Assistance Agreement)
Limitations on Awards	Applicants may apply for either FA or for TA, but not for both.

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Capacity Building Initiative

The CDFI Fund's Capacity Building Initiative provides training and technical assistance to CDFIs through third-party contractors. To date, the CBI has provided training on:

Past

- CDFI Portfolio Management
- [CDFI Capitalization](#)
- Foreclosure Solutions
- Financing Healthy Food Options
- Native CDFI Leadership Journey

Current

- Innovations in Small Business Lending
- Scaling up Microfinance
- [Strengthening Small & Emerging CDFIs](#)
- Financing Community Health Centers
- Minority Depository Institutions

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What We Do

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

CDFI Capitalization Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

I. Capitalizing Your CDFI -- An Overview

- [CDFI Industry Analysis: Summary Report](#)
- [Capital Markets, CDFIs, and Organizational Credit Risk](#): This new book by Charles Tansey, Michael Swack and Michael Tansey discusses the future of CDFIs in the lending business, how they can establish a meaningful niche for themselves, and ideas for greatly increasing the flow of capital to this sector.
- [Presentation for in-person course on "Raising Debt and Equity"](#)

II. Types of Investors in CDFIs

- Banks
 - The Community Reinvestment Act and bank investments in CDFIs
 - [CRA Resources](#): This document provides helpful links to understand the Community Reinvestment Act and research bank performance under the Act.
 - National Community Reinvestment Coalition (NCRC) is a nonprofit advocacy organization that monitors and reports on the Community Reinvestment Act:



Source: http://www.cdfifund.gov/what_we_do/CDFICapitalizationResourceBank.asp

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What We Do (continued)



III. General Tools and Presentations on CDFI Capitalization

- What Investors Want to Know About Your Loan Assets: This document provides a list of information CDFIs should consider assembling if they want to be able to answer a wide range of tough questions from prospective investors.

IV. How CDFIs Are Capitalized Today

- Program-Related Investments
 - Overview
 - Examples and Tools
 - Mission/Impact Investing
 - Examples and Tools
 - Connecting CDFIs to the Socially Responsible Investor Community: This Ford Foundation-sponsored document provides a thorough overview of barriers and opportunities for CDFIs to raise capital from socially responsible investors, and identifies approaches CDFIs can adopt that may increase their ability to connect to socially responsible investors.
 - Equity Advancing Equity: This document describes community foundations that are targeting some of their investment portfolio toward investments that advance racial and social equity.
 - Investing for Social and Environmental Impact: This report from Monitor reviews the growth potential of socially motivated investment ("Impact Investing"), and discusses barriers and recommendations to accelerate the growth of this space.

Source: http://www.cdfifund.gov/what_we_do/CDFICapitalizationResourceBank.asp

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Moderated Discussion Among CDFIs

Karen Jacobson

Loan Fund Manager
Woodlands Community Lenders



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Woodlands Community Lenders

- Started lending in 2012
- Serving three rural counties in north-central WV (total population 58,000)
- Economy is moving from natural resource extraction (lumber) to tourism and healthcare
- Initial capital raised from local community foundation; now using IRP funds
- Staffed by full-time Business Developer and part-time Loan Fund Manager and Executive Director (on contract from partner group)
- Nine loans closed or committed; \$1.24 million in financing through loans and leverage

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Experienced CDFI Executive's Insights

Shaw Canale
CEO
Mountain BizWorks



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Mountain BizWorks



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Mash-Up of Two CDFIs: Mountain BizWorks and Cascadia Revolving Fund

- Originally organized to fill a perceived gap in the market place
- First funding sources typically CDBG, SBA Micro, city/county, local foundations
- Staffing often from social justice or social service background

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Stages of CDFI Development

- Small, righteous, dependent on public funds
- Gaining skills, reputation, staff
- Accessing more private less restrictive capital
- Outgrowing your systems and funders hamper strategic growth
- Loan pipeline growing, adding more public funding to balance sheet
- Identity crisis followed by new impactful trajectory

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What I Wish We Had Done

- Organize our board to focus their expertise in lending, finance, and fundraising
- Do not open for business until a strategic road map is in place
- Lead with credit, and recruit a strong executive director who can underwrite
- Partner with others who train/teach/coach
- Be disciplined in growing balance sheet
- Join OFN and become a Treasury-certified CDFI as soon as possible

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“A Good Strategic Plan Tells You What to Say No To.”

- What problem are you solving?
- What will it look like when you have solved it?
- Who will support you financially?
- Think scale and sustainability from founding.
- What will you do in year one, two and three?
- In year four, do another strategic plan that takes a hard look at the past three years and be prepared to change, modify or abandon beloved parts of your work if you are not seeing impact.
- Strive always to be relevant and remain skeptical of your impact.

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Experienced CDFI Executive's Insights (Part 2)

Marten Jenkins
President
Natural Capital Investment Fund



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About Natural Capital Investment Fund

- Non-profit CDFI affiliated with The Conservation Fund
- Dedicated to funding small businesses in rural communities that protect the environment, generate jobs, and build community wealth
- Service area:
 - West Virginia
 - North Carolina
 - Appalachian regions of Virginia, Tennessee, Kentucky, and Ohio
 - Pee Dee Region of South Carolina and southeast Georgia (forestry only)



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Product Summary

- Financial Products
 - Business expansion loans (\$50,000 to \$250,000)
 - Sustainable Forestry Initiative
 - ShadeFund Microloan (\$10,000 to \$50,000)
 - USDA B & I Guaranteed Loan Program Participant
- Development Services
 - Agriculture Value Chain Cluster Initiative
 - Energy Efficient Enterprises Initiative
 - WVCAP Operating Assistance Initiative



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Key First Steps & Lessons Learned

- Key First Steps:
 - Established formal loan policies and procedures.
 - Established Investment and Advisory Committees composed of community representatives and industry experts.
 - Established a statewide network of community partners / co-lenders.
 - Focused on providing gap financing.
- What I Wish We Had Done:
 - Hire a full time lender.
 - Raise flexible loan capital. Avoid over reliance on federal funding.
 - Join OFN (or similar organization) to take advantage of peer learning and network development.



Do you have questions?

E-mail us at:

jen.giovannitti@rich.frb.org

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Wrap-up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our web site and in the next few days including a recording of this session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at jen.giovannitti@rich.frb.org
- Information about future sessions will be posted on our website along with archived materials from past sessions:
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