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Assessment of the Community Development Financial Institutions Fund (CDFI) Program, Training Program & CDFI Certification

Cross Site and Case Study Report for CDFI Site Visits

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Executive Summary

In 2005 the CDFI Fund initiated a study of the impacts of its Financial Assistance (FA), Technical Assistance (TA), Certification, and Training programs. As part of the study, Abt Associates Inc. prepared case studies on six CDFIs that received Financial Assistance awards. The focus of this document is to summarize feedback on the role that CDFI Fund FA and TA awards play in the ability of CDFIs to serve their communities and carry out their missions. A companion document provides the six individual case studies.

At the suggestion of the Fund, a total of six site visits were conducted to solicit feedback from a sample of CDFIs from across the country. This purposive sample of CDFIs was not intended to be representative of all CDFIs, but to provide illustrative examples of CDFIs working in different capital industries, in different regions and with different target populations. The six CDFIs are as follows:

CDFI Name	Location	CDFI Type	Year Incorporated	Total Assets
Alternatives Federal Credit Union	Ithaca, NY	Credit Union	1979	$50.6m
Florida Community Loan Fund	Orlando, Fl	Loan Fund	1994	$14.5m
Illinois Facilities Fund	Chicago, IL	Loan Fund	1988	$87.1m
Midwest Minnesota CDC	Detroit Lakes, MN	Loan Fund	1971	$53.6m
North Carolina Minority Support Center	Durham, NC	Intermediary	1991	$10.6m
Pacific Community Ventures	San Francisco, CA	Venture Fund	1999	$5.1m

The main objective of the site visits was to provide detailed, qualitative feedback on how CDFI Fund awards impact CDFIs and the communities that they serve, focusing on five hypotheses put forward by the CDFI Fund. While the case studies do not provide "proof" of any hypothesis, they are informative and provide key information about the CDFI industry and the local challenges facing CDFIs. In addition, interviews with CDFI staff and their clients provided tangible examples of the impacts of FA and TA funding on CDFIs. Results of the five hypotheses are summarized briefly below.

Do Fund awards allow CDFIs to (a) expand their community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

Fund awards expanded community development financing in all six of the visited sites, enabling the CDFIs to expand their programs and to serve more customers. For example, the FA award to Pacific Community Ventures (PCV) enabled the organization to invest in more target businesses, increasing impacts on low-and moderate-income (LMI) workers and communities. Fund awards provided key

secondary capital to Alternatives Federal Credit Union (Alternatives), strengthening its capitalization, which enabled the credit union to expand a wide variety of programs.

Fund awards also supported the introduction of new products and services in three of the six sites: Illinois Facilities Fund (IFF), Alternatives, and North Carolina Minority Support Center (NCMSC). At NCMSC, for example, Fund awards supported new programs by providing capital for home mortgage loans and technical support to its network of Community Development Credit Unions (CDCUs) operating in rural communities. The main reason that awards did not lead to the creation of new programs in the other three sites was that these sites already had well-developed products and services that the organizations felt served their constituencies well.

Fund awards further enabled four of the sites—PCV, IFF, NCMSC, and Alternatives—to expand to new markets either within their home states (PCV, NCMSC and Alternatives), or into new states (IFF). CDFI Fund awards did not serve to broaden the geographic reach of the Florida Community Loan Fund (FCLF) or the Midwest Minnesota Community Development Corporation (MMCDC) because these organizations already had statewide service areas and diverse groups of clients.

Do Fund awards help CDFIs to increase their community development outcomes?

CDFI Fund awards significantly increased community development outcomes in all of the sites. Generally, the Fund awards financed an increase in products and services, enabling the CDFIs to serve more clients. In most cases these impacts were felt across all the organization's programs, but in some cases the outcomes of particular programs were strengthened. For example, Fund awards provided essential support to several of Alternatives' key programs, including one that provides funding that is otherwise unavailable for home and business borrowers and another that provides keystone financing, which allows business borrowers to leverage additional funds from other sources. Fund awards also enabled MMCDC to increase its home mortgage and business lending, as well as to sharpen its tailoring of programs to particular client populations.

Do Fund awards help strengthen the financial health of CDFIs as measured by key financial ratios?

CDFI Fund awards strengthened the financial health of all six sites based on key financial indicators and ratios. At FCLF for example, Fund awards enabled the organization to grow at a rapid rate during its first decade of operation, increasing its loan volume from $115,000 in lending in its first two years to more than $4 million in lending in 2006 alone. This growth has been accompanied by steady improvements in self-sufficiency ratios and an increase in net assets from $473,907 in 1996 to over $14 million in 2006. Fund awards to IFF had the most critical impact in the first few years of its operations as a CDFI – the first two FA awards to IFF essentially doubled the organization's lending capacity, which significantly strengthened its balance sheet. In addition, the $9.1 million in Fund awards comprise 80 percent of IFF's unrestricted net assets.

Do FA awards help CDFIs leverage other public and private non-CDFI Fund monies?

CDFI Fund awards enabled each of the six sites to leverage other public and private non-CDFI Fund monies. Three sites – Alternatives, MMCDC and PCV – had at least one investor that required Fund certification. One of MMCDC's funders – the Northwest Area Foundation – issued an RFP that was

restricted to certified CDFIs, enabling the organization to secure a grant. PCV staff reported that many regional banks are interested in investing in PCV's venture funds because these banks understand that CDFI certification guarantees that the banks will receive CRA credit for their investments. Most sites noted that Fund awards played an important role in attracting and encouraging investors by inspiring confidence in the organization. Staff from multiple sites explained that Fund awards act as a kind of "seal of approval" for the organization's mission and ability to achieve its goals.

Do TA awards help CDFIs to (a) increase organizational capacity, (b) improve financial health, (c) increase operational efficiency, (d) improve portfolio quality, and/or (e) improve community development performance?

Three of the six sites – Alternatives FCU, FCLF and NCMSC – received TA awards from the Fund. Organizational capacity was increased at all three sites through staff training. At Alternatives, this training enabled staff to develop products and services that were better tailored to its clients. In addition, accounting upgrades increased capacity. The TA awards also improved overall community development performance at all three sites by improving customer access to services via the internet (Alternatives and NCMSC) and by improving customer satisfaction (FCLF). The TA awards did not directly improve financial health or portfolio quality in any of the three sites.

Introduction

Case Study Methodology

Six CDFIs were selected for the detailed case studies. The CDFIs were not intended to be representative of all CDFIs, but to provide illustrative examples of CDFIs working in different capital industries, in different regions and with different target populations. The six CDFIs were also chosen to include, as best possible, the variety of traits of all certified CDFIs. Specifically, the CDFIs were chosen to vary by:

- **Financial institution type:** loan fund, venture fund, and credit union;
- **Target market served:** primarily rural versus primarily urban;
- **Age of the CDFI:** emerging versus more mature;
- **Primary lending purpose:** housing versus business;
- **Region of the country**: East Coast, South, Midwest and West Coast; and
- **Awards received:** FA with and without TA awards.

The sources of data for the case studies included information obtained from the CDFI Fund, information obtained on-site during the site visits, publicly available data, and survey data. Examples of the types of information used to prepare the case studies are provided in Appendix 1.

Site visits to each of the six CDFIs took place between November 2006 and January 2007. Each visit lasted about three days and included interviews with CDFI staff, Board members, customers, local funders (where applicable), and other key stakeholders and partners identified by the CDFI (e.g., advocacy organizations, competitors, religious groups, social service organizations, housing organizations, local community groups, and local government officials). Appendix II includes a full listing of interviews conducted during each of the site visits and Appendix III includes copies of the topic guides used during the site visit interviews.

Description of the CDFIs

The CDFIs visited for this study include three loan funds, one venture capital fund, and one financial intermediary. Five of the CDFIs serve statewide areas and one serves a local, multiple-county area. Two of the six serve primarily rural areas. The organizations vary significantly in size, ranging from \$5.1 to \$87.1 million in net assets and from 7 to 41 FTE employees. Five of the six CDFIs have been in operation for more than 10 years.

This section provides brief profiles of each of the CDFIs, followed by a table summarizing key information across the sites (see Exhibit 1). Further details are provided in the site-level case studies, which follow the cross site summary.

Alternatives Federal Credit Union

Alternatives Federal Credit Union (FCU) is a nonprofit, member-owned Community Development Credit Union (CDCU) that serves several counties surrounding Ithaca, NY. In addition to providing typical credit union products and services such as share accounts, mortgages, and other loans, Alternatives offers specialized loans and a handful of programs that support its mission of helping underserved and unbanked populations to build assets. Alternatives FCU was founded in 1979 and is designated as a low-income credit union. Alternatives had 41 FTE employees and $50.5 million in total assets as of November 2006.

Florida Community Loan Fund

The Florida Community Loan Fund (FCLF) is a nonprofit loan fund founded in 1994 and headquartered in Orlando, Florida. It was created to address the lack of capital financing available to nonprofits in Florida. FCLF provides loans for the development of low-income housing and supportive and social services facilities and technical assistance. These loans are made to organizations that serve socially and economically disadvantaged communities. By evaluating potential borrowers and projects with different lending criteria than conventional banks, FCLF enables these organizations to address needs in the community that were previously without financial support. FCLF was founded by members of a Catholic order and remains the only statewide CDFI in Florida. FCLF had 9 FTE employees and $14.5 million in total assets at the close of Fiscal 2006.

Illinois Facilities Fund

The Illinois Facilities Fund (IFF) is a nonprofit loan fund established in 1988 and headquartered in Chicago, Illinois. It was created to provide capital financing to nonprofits in Illinois, but with the support of a recent FA award has expanded to serve communities outside of Illinois as well. The IFF began as an offshoot of the Chicago Community Trust to address the energy needs of nonprofit human service organizations and has substantially expanded the range of services it proves. The IFF provides products and services that otherwise do not exist in the Illinois nonprofit sector, including loan products at terms more favorable than those offered by conventional banks, technical assistance, real estate advisory services, and research services. IFF had 40 FTE employees and $87.1 million in total assets at the close of Fiscal 2005.

Midwest Minnesota CDC

Midwest Minnesota Community Development Corporation (MMCDC) is a large and complex nonprofit loan fund located in Detroit Lakes in rural Minnesota. MMCDC and its subsidiaries, affiliates, and limited partnerships provide commercial lending, home mortgage lending, housing development, housing construction, homeownership education, and economic development consulting services, all with the goal of improving the lives of low-income populations and encouraging business development in rural areas. MMCDC's commercial and home mortgage lending services cover vast geographic areas, including all of Minnesota and small parts of Wisconsin and North and South Dakota. MMCDC had about 17 FTE employees and $53.6 million in total consolidated assets (including subsidiaries) at the close of Fiscal 2006.

North Carolina Minority Support Center

The North Carolina Minority Support Center (NCMSC) is a nonprofit financial intermediary founded in 1991 and located in Durham, North Carolina. It provides capital investments, grants, and technical assistance to a network of community development credit unions (CDCUs) that have historically served rural, low-income, African-American communities in North Carolina. This assistance maintains the financial viability of the state's small CDCUs and expands their capacity. NCMSC had 7 FTE employees and $10.6 million in total assets at the close of Fiscal 2005.

Pacific Community Ventures

Pacific Community Ventures (PCV) is a nonprofit firm founded in 1998 and headquartered in San Francisco, California. It provides advisory services, asset building capabilities, evaluation, and knowledge sharing, and manages a number of venture funds targeted at under-served communities across the state of California. Using its broad network of resources, PCV invests both financial and human capital in small companies in order to increase wealth and opportunity for lower-income California communities and workers. The venture funds managed by PCV are for-profit entities. PCV had 13 FTE employees and $5.1 million in total assets at the close of Fiscal 2005. Full financial results for PCV's venture funds are not publicly available. At the close of 2006, the venture funds' active portfolio had outstanding investments of more than $10 million.

Structure of the Report

The remainder of this report summarizes the overall effects of the CDFI Fund awards on the case study organizations and discusses specific impacts in five key areas. This cross-site comparison is followed by the six individual case studies. The report includes appendices on the case study data collection methodology, individuals interviewed, and site visit interview protocols.

Exhibit 1: Background Information on the Six Case Study Sites

	Alternatives Federal Credit Union (AFCU)	Florida Community Loan Fund (FCLF)	Illinois Facilities Fund (IFF)	Midwest Minnesota CDC (MMCDC)	North Carolina Minority Support Center (NCMSC)	Pacific Community Ventures (PCV)
Institution Type	Credit Union	Loan Fund	Loan Fund	Loan Fund	Financial Intermediary	Venture Fund
Location (Region)	Ithaca, NY (East Coast)	Orlando, FL (South)	Chicago, IL (Midwest)	Detroit Lakes, MN (Midwest)	Durham, NC (South)	San Francisco, CA (West Coast)
Service Area	Multiple counties	State-wide	State-wide plus[1]	State-wide plus[2]	State-wide	State-wide
Service Area Type	Urban and rural	Urban and suburban	Mostly urban, some suburban and rural	Rural	Rural	Mostly urban
Lending Purpose	Banking services and loans	Capital loans	Facilities loans	Home mortgage and businesses loans	Deposits, secondary capital and TA	Venture capital investments
Type of Clients	LMI Individuals, Businesses	Nonprofits serving LMI individuals and communities	Nonprofits serving LMI individuals and communities	LMI Individuals, Nonprofits, Businesses	Rural CDCUs serving LMI individuals	Businesses employing LMI individuals
Year Incorporated (Age)	1979 (28 years)	1994 (13 years)	1988 (19 years)	1971 (36 years)	1991 (16 years)	1999 (8 years)
# FTE Staff	41	9	40	16.6	7	13
Total Assets	$50.6 million	$14.5 million	$87.1 million	$53.6 million	$10.6 million	$5.1 million (for the nonprofit)

[1] In 2006 IFF decided to also accept loan applications from organizations in for bordering states, including Wisconsin, Missouri, Iowa and Indiana. While IFF's service area extends beyond state boundaries, most of its clients are located within the greater Chicago metropolitan area.

[2] MMCDC also provides business loans and home mortgage loans to some clients in Wisconsin and in North and South Dakota. While MMCDC's service area extends beyond state boundaries, a number of its development and housing services are focused in a seven-county area in Northwestern Minnesota. In addition, two of its subsidiaries exclusively serve residents of the White Earth Reservation, whose southern boundary is ten miles away from MMCDC's office in Detroit Lakes, Minnesota.

Impact of CDFI Fund Awards

The six sites have received cumulative awards from the CDFI Fund totaling between $1 million (PCV) and $9.1 million (IFF). FCLF, MMCDC and NCMSC have received between $2.3 and $2.5 million each, while Alternatives FCU has received $4.2 million (see Exhibit 2). These awards have been put towards a variety uses, including secondary capitalization (Alternatives FCU), equity capital (FCLF and IFF), loan fund capitalization for business and home mortgage loans (MMCDC), loan fund capitalization for client CDCUs to use for mortgage lending (NCMSC), and venture capital investment (PCV).

The key impacts of the CDFI Fund awards varied both by the types of organizations receiving the award and by the programs toward which the awards were directed (Exhibit 2). The main impact of the Fund awards on the loan funds was an expansion of the organizations' lending capacity – including both the loan amounts and the number of clients served. IFF staff noted that beyond these impacts, the Fund provides a source of financing for State nonprofits that is simply not available elsewhere. MMCDC staff added that the Fund awards have enabled the organization to provide and hold in portfolio mortgage loans that would be difficult to sell on the secondary market, enabling them to serve clients that could not be served if all loans had to be sold.

Fund awards provided Alternatives FCU with critical secondary capital, which strengthened its net capital ratio, enabling the organization to expand or provide a variety of community development programs such as financial counseling and tax preparation services. The Fund awards to NCMSC enabled the organization to significantly expand the mortgage lending capacity among rural CDCUs. Lastly, the key impact of the Fund award on PCV was a direct increase in venture capital for investing businesses, as well as an indirect increase in venture capital from funders who were attracted to PCV by the Fund's award.

Exhibit 2: CDFI Fund Awards and Impacts for the Six Case Study Sites

	CDFI Fund Award History	Main Uses of Fund Awards	Impacts of Fund Awards
Alternatives Federal Credit Union (Alternatives FCU)	**Total: $4,225,290** $ 750,000 - FA, 1997 $ 57,000 - TA, 1997 $2,000,000 - FA, 1999 $1,260,940 - FA, 2004 $ 157,350 - TA, 2004 (Alt. CV had another 60K FA, 46K TA)	• Secondary capitalization (FA awards), and • Technology improvements and training (TA awards)	Strengthened the net capital ratio and increased the number of programs the organization could support (FA awards), and increased its capability to serve its target population (TA awards). Cumulatively through 2005, the organization: • Made 1,782 home mortgage loans totaling more than $112 million; • Made consumer loans totaling $50.5 million; • Made 3,514 business loans totaling $12.6 million, creating or retaining 983 jobs; 2,000 clients completed a business education course; and • Provided 218 members with IDA accounts.
Florida Community Loan Fund (FCLF)	**Total: $2,400,000** $ 525,000 -FA, 1998 $ 25,000 -TA, 1998 $ 50,000 -TA, 2000 $1,000,000 -FA, 2001 $ 800,000 -FA, 2004	• Equity capital[3] (FA awards), and • Market research and training (TA awards)	Expanded lending capacity (the equity capital leveraged significant debt capital) and increased the number of clients the organization could serve (FA awards), and increased its efficiency and ability to serve its clients (TA awards). Cumulatively through September 2006, the organization made 117 loans to over 50 nonprofits, totaling over $25 million, which: • Supported projects that constructed or rehabbed 333 single-family and 1,203 multi-family homes; • Created 954 supportive housing units; • Built 49 community facilities; and • Provided direct support to nearly 14,000 people.

[3] Equity capital is the amount of equity available for lending or investing. It is capital that comes from grants, donations, etc. for which the program is *not* liable to repay. This term is also referred to as "net assets dedicated to lending" by nonprofit loan funds, "net worth" by credit unions, and "equity" by venture capital funds.

	CDFI Fund Award History	Main Uses of Fund Awards	Impacts of Fund Awards
Illinois Facilities Fund (IFF)	**Total: $9,110,000** $ 900,000 - FA, 1996 $2,500,000 - FA, 1998 $2,000,000 - FA, 2000 $2,000,000 - FA, 2002 $ 750,000 - FA, 2003 $ 375,000 - FA, 2004 $ 585,000 - FA, 2006	• Equity capital (FA awards)	Expanded lending capacity (the equity capital leveraged significant debt capital). Cumulatively through 2006, the organization: • Made nearly 500 capital loans to 300 IL nonprofits, totaling over $140 million, which impacted the lives of almost one million individuals and created 17,000 new jobs; • Funded over 6.5 million square feet of new or upgraded facilities; • Completed 59 real estate projects; • Built or upgraded 75 classrooms; and • Funded 153 childcare facilities.
Midwest Minnesota CDC (MMCDC)	**Total: $2,350,000** $ 600,000 - FA, 1999 $1,000,000 - FA, 2002 $ 750,000 - FA, 2004 NMTC awards: 2004: $35 million 2006: $80 million	• Development and construction of affordable single-family homes, • Mortgage loans and gap financing to low- and moderate-income borrowers, and • Commercial loans for business expansion.	Expanded lending capacity, built up its loan portfolio and increased the number of clients the organization has served: • Made over 2,000 home mortgage loans to low- and moderate-income (LMI) borrowers in rural MN (as of Oct. 2006), • Provided more than 300 downpayment assistance loans (as of Oct. 2006), • Built 426 homes for LMI buyers (as of March 2005), and • Made 509 business loans, creating 2,939 new jobs and maintaining 13,525 jobs (as of March 2005).

	CDFI Fund Award History	Main Uses of Fund Awards	Impacts of Fund Awards
North Carolina Minority Support Center (NCMSC)	**Total: $2,530,000** $2,000,000 - FA, 2000 $ 30,000 - TA, 2000 $ 500,000 - FA, 2004	• Capitalize a Loan Fund to expand client CDCUs' ability to make mortgage loans to their members and later to improve mortgage lending (FA Awards), and • Technological enhancements to enable the provision of remote TA to client CDCUs (TA Award).	Expanded mortgage lending capacity in client CDCUs and enabled them to navigate and respond to a challenging regulatory and economic environment: • The volume of mortgage loans made by CDCUs aided by the Support Center increased by two and a half times between 1999 and 2006, from $11.9 million to $31.1 million. • The Support Center was also instrumental in the merger of eight CDCUs to preserve the CDCU presence in the affected communities in the face of significant financial and regulatory challenges to these small institutions.
Pacific Community Ventures (PCV)	**Total: $1,000,000** $1,000,000 - FA, 2002	• Investment capital for a venture capital fund.	Increased the ability of the venture capital fund to invest in businesses and played a key role in attracting additional funders to PCV venture capital funds. • Through 2005, PCV-financed companies employed 1,531 residents of LMI communities earning an average hourly wage of $13.18. All PCV-financed companies offered medical benefits and paid vacation, and most offered retirement plans. • By 2006, PCV had invested in and advised over 50 CA firms.

Detailed Feedback on the Hypotheses

Do Fund awards allow CDFIs to (a) expand their community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

Expanding Community Development Financing

Fund awards expanded community development financing in all six of the visited sites. The awards primarily enabled the CDFIs to expand their programs and serve more customers. Both FCLF and IFF used Fund awards for equity capital, which enabled them to offer more loans and larger loans. The FA award to PCV enabled the organization to invest in more target businesses, increasing impacts on LMI workers and communities. As a result of Fund awards, MMCDC was able to make more business loans and make non-conforming home mortgage loans that could be held in portfolio. (This enabled the organization to make loans to lower-income and more risky borrowers, since these loans could not be sold to the secondary market). At Alternatives, Fund awards enabled the organization to be well capitalized, which allowed it to offer a wide variety of financial products and services, including: financial education programs for individuals and businesses, a student credit union, IDAs and a free tax assistance program. Fund awards were also the primary source of capital to Alternatives CV, enabling the organization to make subordinated debt loans, which are absolutely essential to Alternatives' lending program. Fund awards increased the amount of general deposits and secondary capital in NCMSC's Loan Fund that could be made available to CDCUs to support the growth of their mortgage lending activity. In all, the CDFI Fund awards account for more than a quarter of the balance of the Support Center's Loan Fund and thus directly account for a sizeable share of the funds the organization invests in the CDCU network.

Introducing New Products and Services

Fund awards supported the introduction of new products and services in three of the six sites (NCMSC, IFF and Alternatives). For example, Fund awards enabled NCMSC to support the creation of robust mortgage lending services at its client CDCUs in rural communities. This support included capital for home mortgage loans as well as technical support, including help developing underwriting policies, creating credit committees, training loan officers, and building software capabilities. The Support Center was also able to create the multi-branch Generations Community Credit Union with the support of Fund awards, and this new credit union has introduced new products and services for underserved communities. In both cases, the NCMSC loan fund capitalized by Fund awards provided both capital and income for these new products and services.

With the help of Fund awards, IFF was able to create two new lending products, which serve Federally qualified heath centers and nonprofits that needed to build their development capacity. IFF has financed the construction of more than 30 health care facilities with the Community Health Care Capital Fund, which began after the 1998 FA award.

Alternatives did not specifically target Fund awards to new programs, but the increase in its financial base allowed them to expand the types of services it offered its clients including providing financial counseling, tax preparation services, and the start of its venture fund.

Fund awards did not lead to new products and services for FCLF, MMCDC, or PCV. These CDFIs had well-developed products and services prior to receiving the Fund awards, and in several cases had already instituted diverse offerings, making additional diversification inadvisable. For example, FCLF staff explained that because the organization's mission and target population has not changed, there has never been a need to *add* products and services – only to *improve* them. Furthermore, several sites noted that because FA award applications are heavily outcomes focused, CDFIs tend to pitch proven programs with predictable and dependable outcomes rather than new programs whose outcomes are often much harder to anticipate.

Expanding to New Markets

Fund awards enabled four of the six CDFIs to expand to new markets (Alternatives, FCLF, IFF, and PCV). At Alternatives, Fund awards played an important role in attracting new members and borrowers by supporting the credit union in constructing and moving to a new building in downtown Ithaca. Fund awards enabled the credit union to maintain acceptable net worth ratios while it expanded lending to match the increase in savings from the new members.

Fund awards enabled FCLF to serve new kinds of borrowers after the year 2000, including economic development organizations, faith-based community development corporations, and rural self-help housing organizations. IFF is using Fund awards to attract more rural borrowers in Illinois.

Over time PCV has expanded its geographic target market from the Bay Area to most of the urban areas in California. The geographic expansion began with its second venture fund, which included the CDFI Fund award. Fund certification sent a signal to potential investors and partners about the credibility of the organization, which was particularly helpful as PCV expanded its service areas where potential partners were less familiar with PCV and its staff.

Fund awards did not expand the markets at NCMSC and MMCDC, mainly because these two organizations already had statewide service areas and diverse groups of clients.

Summary of Impacts of Awards on ability to expand community-financing activities, introduce new products and services, and or expand to new markets.

	Expand Financing	New Products or Services	Expand to New Markets
Alternatives	Better capitalization, which helped all programs	Financial counseling, tax preparation services	Began serving new members and borrowers
FCLF	More equity enabled more and larger loans	NA	Began serving economic development, faith-based and rural orgs
IFF	More equity enabled more and larger loans	Lending for health centers and capacity development	Expanded to serve rural areas and other metro areas outside Chicago
MMCDC	Additional mortgage and business loans	NA	NA
PCV	More and larger investments	NA	Expanded to serve the entire state of California
NCMSC	Enabled NCMSC to make deposits in member CDCUs.	New mortgage lending services	NA

Do Fund awards help CDFIs to increase their community development outcomes?

CDFI Fund awards significantly increased community development outcomes in all of the sites. Generally, the Fund awards financed an increase in products and services, enabling the organizations to serve more clients. In most cases these impacts are felt across all of the organization's programs, but in some cases the outcomes of particular programs are strengthened. For example, Fund awards are essential to Alternatives' ability to support several of its key programs, which provide funding that is otherwise unavailable for home and business borrowers and provide keystone financing, which allows business borrowers to leverage additional funds from other sources.

At FCLF, because Fund awards were generally used for equity capital (which leveraged significant debt capital), roughly one-fourth of the organization's outcomes are a direct result of the awards. Without these awards, site staff report that these outcomes could not have been achieved. In addition, if these awards had not been made, the organization may not have received investments from other funders, further reducing its ability to make an impact. A similar situation was described by IFF staff. IFF staff further emphasized that there are few options outside of IFF for Illinois nonprofits to finance their capital needs. As a result, without the CDFI Fund's significant support, a wide range of Illinois nonprofits would be without a source of capital financing.

Fund awards enabled MMCDC to increase both its home mortgage lending and its small business lending. In addition, the Fund's focus on target markets caused MMCDC to sharpen its thinking

about client populations, enabling and inspiring staff to develop an approach in which they develop standard tools and tailor them to particular populations.

At NCMSC, Fund awards enabled significant expansion of mortgage lending by the organization's network of rural credit unions, increasing the volume of mortgage loans two and a half times between 1999 and 2006. The awards also contributed to the Support Center's success in maintaining the CDCU network in North Carolina, and this network has a broad range of community impacts, including providing a broad range of financial services to underserved populations, the development of alternatives to high-cost payday loans, and support for financial education of credit union members.

PCV staff report that beyond contributing an important portion to one of their venture capital funds, the Fund award attracted other investors, which enabled PCV to raise additional capital, increasing its ability to achieve community development outcomes. In addition, PCV staff noted that although the FA award was 1/13th of the total amount of PCV's second venture fund, the contribution was more than 1/13th of the total community outcomes because as a venture fund grows it can invest in larger companies, expanding the range of target investments and therefore expanding potential impacts.

Summary of Impacts of Awards on Ability to Increase Community Development Outcomes

	Increasing Community Development Outcomes
Alternatives	Better capitalization, which helped all programs including home and business loans, and programs to attract new members to the credit union.
FCLF	The equity provided by the FA award directly contributed to about one-fourth of the organization's total outcomes.
IFF	The equity provided by the FA award directly contributed to the ability to IFF to make loans. The organization estimates that the $9 million in Fund awards was leveraged into more than $36 million in loans to non-profits.
MMCDC	Fund awards enabled MMCDC to increase mortgage lending and small business lending.
PCV	The Fund award enabled PCV to make more and larger investments in businesses.
NCMSC	The fund award enabled member CDCUs to more than double mortgage lending over a ten-year period.

Do Fund awards help strengthen the financial health of CDFIs as measured by key financial ratios?

CDFI Fund awards strengthened the financial health of all six sites based on key financial indicators and ratios. At Alternatives, Fund awards have played a critical role in secondary capitalization, which strengthens the credit union's net worth ratio, thereby allowing it the ability to offer a variety

of loans and programs under Federal guidelines. Without the significant secondary capital provided by the Fund, Alternatives' net worth ratio, like that of other CDCUs focusing on low-income customers, would be below the requirements for an adequately- or well-capitalized institution, forcing the credit union to submit an action plan to correct the problem.

At FCLF, Fund awards enabled the organization to grow at a rapid rate during its first decade of operation, increasing its loan volume from $115,000 in lending its first two years to more than $4 million in lending in 2006 alone. This growth has been accompanied by steady improvements in self-sufficiency ratios and an increase in net assets from $473,907 in 1996 to over $14 million in 2006.

Fund awards to IFF had the most critical impact in the first few years of its operations as a CDFI – the first two FA awards to IFF essentially doubled the organization's lending capacity, which significantly strengthened its balance sheet. In addition, the $9.1 million in Fund awards comprise 80 percent of IFF's unrestricted net assets.

MMCDC staff reported that Fund awards positively impacted a number of key indicators, including achieving positive net revenue, strong net assets as a percentage of total assets, good operating and capital liquidity, and minimal portfolio at risk. More generally, the award application process helped the organization to sharpen its business strategy by clearly articulating its products and services, clients and markets, and competitors, increasing efficiency and focus. In addition, NMTC awards have provided additional fee income to support MMCDC's goals.

Fund awards significantly expanded NCMSC's Loan Fund, which is one of its primary means of supporting North Carolina's CDCUs. In this regard, the Support Center has experienced steady growth in both total and net assets over time. PCV staff explained the FA award has attracted and continues to attract additional funders, directly contributing to the organization's ability to strengthen its financial health.

Summary of Impacts of Awards on Strengthening Financial Health

	Strengthen Financial Health
Alternatives	Provided much needed secondary capitalization which kept the CU in the "well capitalized" categories of CDCUs.
FCLF	Improved total assets and net assets.
IFF	Fund awards make up 80% of IFF's unrestricted capital, and have enabled IFF to raise substantial amounts of debt financing.
MMCDC	Improved liquidity and net revenues and assets.
PCV	In addition to the direct impact, the award helped attract other funders which further strengthened PCV finances.
NCMSC	Increased assets which enabled NCMSC partners to expand lending.

Do FA awards help CDFIs leverage other public and private non-CDFI Fund monies?

CDFI Fund awards indeed enabled each of the six sites to leverage other public and private non-CDFI Fund monies. Three sites – Alternatives, MMCDC and PCV – had at least one investor that required Fund certification. For example, the Empire State Development Corporation (ESDC) is a New York State agency that provides services and assistance to encourage business development. Alternatives receives significant grants through an ESDC program that requires Fund certification. One of MMCDC's funders – the Northwest Area Foundation – issued an RFP that was restricted to certified CDFIs, enabling the organization to secure a grant. PCV staff reported that many regional banks are interested in investing in PCV's venture funds because these banks understand that CDFI certification guarantees that the banks will receive CRA credit for their investments.

Most sites noted that Fund awards played an important role in attracting and encouraging investors by inspiring confidence in the organization. Staff from multiple sites explained that Fund awards act as a kind of "seal of approval" for the organization's mission and ability to achieve its goals. At PCV, staff reported that perhaps the greatest value of their FA award was its effect of attracting other investors. PCV staff explained that this effect is long lasting and has helped them to raise money for subsequent venture capital funds. NCMSC funders interviewed for the case study noted that the CDFI Fund awards indeed influenced their choice to also invest in the organization, noting that Fund awards signaled that the organization was strong and trustworthy. MMCDC staff reported that FA awards especially attracted and encouraged grants from foundations, including the Calvert Foundation and Catholic Health Initiatives, as well as from the National Community Capital Association (now known as the Opportunity Finance Network). Alternatives staff explained that Fund awards highlight the community development mission of the credit union, attracting funders for whom that is important.

Both FCLF and IFF staff described a two-stage leveraging process. Because of the flexibility of the FA awards, they were most often used as equity capital, which leveraged significant debt capital, enabling the organizations to make more loans and larger loans. In addition, loans made by these sites often compose only a portion of total project financing: FCLF loans generally represent about one-seventh of total project financing, and IFF loans generally represent about one-third of total project financing. As a result, loans enabled by FA awards also encourage other businesses and organizations to invest in client projects. Because the majority of FA awards are circulating through these loan funds, they will continue to leverage both debt capital and outside project investors in the future.

Summary of Impacts of Awards on Ability to Leverage non-CDFI Fund Money

	FA Award Leverage Non-CDFI Fund Money
Alternatives	Some funders such as Empire State Development Corporation require certification.
FCLF	Each FCLF loan is only a portion of the funds in any transaction, so the FA award enabled additional lending, and each dollar leverages about $6 additional dollars.
IFF	Each IFF loan is only a portion of the funds in any transaction, so the FA award enabled additional lending, and each dollar leverages about $2 additional dollars.
MMCDC	Fund awards attract and encourage foundation grants, one of which required certification.
PCV	Fund awards encourage other investors, some of which see certification as a guarantee that the investor will receive CRA credit; also they are encouraged that the government "puts its money in the deal."
NCMSC	Fund awards encourage other investors, and gave them confidence in the organization.

Do TA awards help CDFIs to (a) increase organizational capacity, (b) improve financial health, (c) increase operational efficiency, (d) improve portfolio quality, and/or (e) improve community development performance?

Three of the six sites – Alternatives FCU, FCLF and NCMSC – received TA awards from the Fund. Organizational capacity was increased at all three sites through staff training. At Alternatives, this training enabled staff to develop products and services that were better tailored to its clients. In addition, accounting upgrades at Alternatives also contributed to increased capacity. At FCLF, staff received computer training, enabling employees to take advantage of upgraded technology. New technologies, including software, systems and hardware, increased efficiency at both Alternatives and FCLF.

The TA awards improved overall community development performance at all three sites by improving customer access to services via the web (Alternatives and NCMSC) and by improving customer satisfaction (FCLF). More generally at Alternatives, TA awards have increased clients' access to financial services, loans, and financial education. In addition, the TA awards enabled NCMSC staff to provide remote TA services to its network of rural credit unions, which had a significant impact on these organizations. Since the receipt of the TA award, NCMSC has further developed its technology to facilitate remove TA and accounting services for its client organizations.

For both Alternatives and FCLF, the relative amounts of Fund TA awards were very small compared to the overall funds these organizations invest in expanding their capacity. As a result, the overall impacts of the TA awards are relatively small compared to these organizations' ongoing TA-type needs and planned investments. Lastly, the TA awards reportedly improved the financial health at FCLF indirectly by making the organization more efficient.

Summary of Impacts of Technical Assistance Awards

	Increase Capacity	Improve Financial Health	Increase Efficiency	Improve Portfolio Quality	Improve CD Performance
Alternatives	Yes – through accounting upgrades and training	No	Yes – through new technologies	No	Yes – through web services
FCLF	No	Yes- because more efficient	Yes – through new technologies	No	Yes – by increasing customer satisfaction
NCMSC	Yes – through training	No	No	No	Yes – through online access and remote provision of technical assistance.

Case Study: Alternatives Federal Credit Union

Summary

Alternatives Federal Credit Union (FCU) is a member-owned Community Development Credit Union (CDCU) that serves several counties surrounding Ithaca, NY. In addition to providing typical credit union products and services such as share accounts, mortgages, and other loans, Alternatives offers a range of specialized loans and programs that support its vision of helping underserved and unbanked populations to build assets. Alternatives FCU was founded in 1979 and is a designated as a low-income credit union.

Between 1997 and 2004, Alternatives FCU and its affiliated loan fund received $4.3 million from the CDFI Fund, just over $4 million of which was Financial Assistance (FA) awards. An increasing proportion of the awards (about two-thirds in 2004) have been taken in the form of secondary capitalization, which strengthens the credit union's net worth ratio and increases the number of programs it can support.[4] About $261,000 was Technical Assistance (TA) awards, which have enabled the credit union to increase its capabilities to serve its target population.

Alternatives had approximately $44 million in total deposits and almost $33 million in outstanding loans as of November 2006, and $50.5 million in total assets. Since its founding Alternatives has made over $112 million in home mortgage loans, $50.5 million in consumer loans, and $12.6 million in business loans. These loans account for 1,782 home purchases, and the creation or retention of almost a thousand jobs. Alternatives has also offered a number of financial education and training opportunities for individuals and businesses, and has been very successful in helping individuals and organizations reach their development and financial goals.

This case study provides a detailed description of Alternatives FCU's products and services and explores how the receipt of CDFI Fund awards has affected the organization's ability to serve its target population and carry out its mission. The case study is based on a site visit to Alternatives FCU in December 2006 and interviews with key staff and stakeholders. It also draws upon data and reports provided by Alternatives FCU and Alternatives FCU's applications for CDFI Fund awards. The case study is organized into four main sections: Organization Background; Products and Services; Financial Information; and CDFI Fund Program Impacts. The case study concludes by answering a series of specific questions about how the receipt of CDFI Fund awards has affected the organization.

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[4] Marva Williams' paper "Critical Capital: How Secondary Capital Investments Help Low-Income Credit Unions Hit Their Stride" (May 2002, Woodstock Institute, Chicago, IL – www.woodstockinst.org) provides a good summary of the role that secondary capital plays in Low-Income Credit Unions and helped inform the discussion of secondary capital throughout this case study.

Organization Background

History

Alternatives has its roots in the Alternatives Fund of Ithaca, a trade association of 34 worker-owned businesses and co-ops focused on community development and peer support for small businesses. This consortium grew during the seventies, adding community groups and individuals as part of its membership. In 1979, the Alternatives Fund sponsored the formation of the Alternatives Federal Credit Union, which began by offering savings accounts to individuals and loans to small business at an interest rate of 12 percent, which was very favorable at the time. Within a short time Alternatives found itself with significant amounts of lending capital available because deposits in savings account were much larger than the demand for small business loans. The credit union then began looking for opportunities to diversify its portfolio. After conducting a study of home values in the area using historical information going back to the 1950s, Alternatives staff realized that by focusing lending on lower-cost homes, they could afford to take on more investment risk and offer an alternative to the existing mortgage products that required a minimum 20 percent downpayment. Alternatives made its first real-estate loan in 1981, started its home mortgage program in 1982, and grew quickly as a result of these offerings.

Alternatives Federal Credit Union

- Organization founded in 1979
- Headquartered in Ithaca, NY
- Provides a range of banking and financial services for individuals and small businesses in west central New York state
- 41 FTE employees
- Total assets in 2005: $10.5 million
- Key outcomes 1979-2005:
  - Over 8,000 members (66% low- or very low-income)
  - 1,782 home loans totaling $112 million
  - 2,514 business loans totaling $12.5 million
  - 2,000 individuals received business education
  - 273 individuals received financial education
  - 2,080 individuals received tax preparation assistance

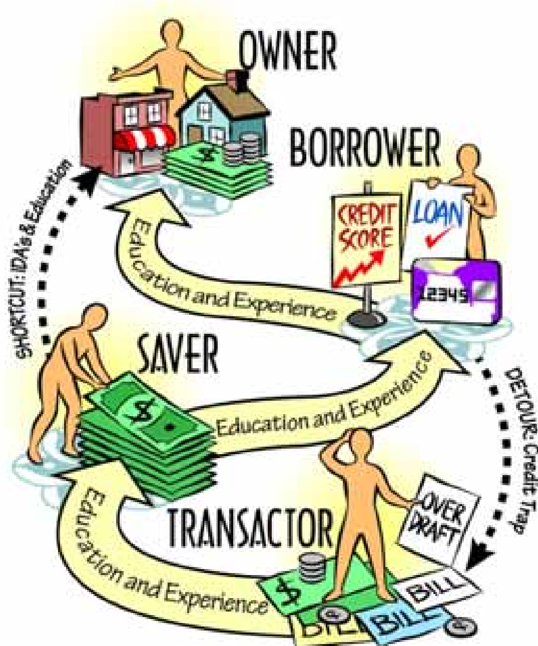
Mission and Goals

Alternatives FCU's mission is guided by its vision: "To build wealth and create economic opportunity for underserved people and communities." The National Credit Union Administration has designated Alternatives FCU as a Low-Income Credit Union (LICU), and approximately two thirds of its members are either low or very low income. In order to receive the LICU designation, at least half of a credit union's members must live in zip codes with median household income below $33,595. Alternatives' mission is to provide: (1) access to transactional services; (2) savings and community investment opportunities; (3) capital investments to individuals, small businesses, and nonprofits; and (4) education about capital. The organization's philosophy is that the key to creating a vibrant and healthy local economy is:

- Creating good jobs that pay fair wages;
- Circulating money within the local economy by supporting local businesses;
- Building individual assets; and
- Increasing financial awareness and skills through education.

Alternatives' goal is to help low-income individuals and households realize financial self-sufficiency by offering services and products that allow them to move along a path from merely transacting (living paycheck-to-paycheck), to saving, borrowing, and, finally, owning assets. This approach was formalized into the Credit Path® model by the CEO in 1995, and can be seen in Exhibit 1. Although Alternatives staff recognize that the financial landscape is far more complex than the Credit Path® model depicts, they nevertheless find it useful for developing new programs.

Exhibit 1: Alternatives FCU Credit Path® Model[5]



Clients and Service Area

The credit union is located in Ithaca, New York in the west central portion of the state. Its primary service area is Tompkins County, but it provides several services – including mortgage lending, IDAs and venture capital – to residents of the six directly adjacent counties. Membership in the credit union

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[5] © 1995 by Alternatives Credit Union. Reproduced with permission.

is open to all members of the Alternatives Fund – an organization founded in 1970 by a group of 34 worker-owned businesses and co-ops. Individuals can join the Alternatives Fund for a $10 fee.

The 2000 Census recorded almost 100,000 people living in Tompkins County, with about a thirty percent living in the City of Ithaca itself. Ithaca has reputation as one of the most culturally liberal cities in the country, and many of the interviewees said that the local environment has a distinctly different feel and culture than that of neighboring communities, which are more mainstream and rural. Ithaca's character and social and economic environment are heavily influenced by its two well-known educational institutions, Cornell University and Ithaca College. Tompkins County is also home to a community college. The educational institutions are the largest source of employment in the county. Other sizable employers include several manufacturing concerns, a number of small businesses and restaurants and a growing number of chain stores and big-box retailers in two expanding commercial zones outside of the city center. The growth of the retail sector and the parallel increase in the proportion of service-oriented jobs is the subject of much debate locally.

Alternatives attracts clients by understanding and appreciating the local environment. Credit union members reported that they felt much more comfortable at Alternatives than they did at traditional banks. The credit union's membership shows that it has successfully attracted minorities and low- and moderate-income (LMI) individuals. While the county and city had African American populations of four and seven percent respectively, the credit union had nine percent African American membership.[6] About three percent of credit union members were Hispanic, matching that for the county but slightly less than the five for the city. Sixty-nine percent of members have had incomes at or below 80 percent of area median income (AMI), with 46 percent of member shaving incomes at or below 50 percent AMI in 2004. Almost two-thirds (64 percent) of members were female, and 17 percent were unbanked for a year or more before joining the credit union. Although membership has grown substantially in the last few years, many of the staff know frequent customers by name, a level of familiarity that members appreciate.

Alternatives' business clients reflect its focus on small to medium-sized local businesses, including many women- and minority-owned businesses and firms less than three years old. Most of the businesses are employee-owned and focused on providing good jobs with fair wages to their employees. The credit union uses job creation and retention as benchmarks when evaluating its lending programs. Alternatives also makes loans to nonprofits.

Organizational Structure

Alternatives FCU is one of four affiliated corporations that form the Alternatives Group. The credit union is closely affiliated with another member of this group, Alternatives Venture Fund d/b/a Alternatives Community Ventures (CV), which also receives funding from the CDFI Fund. Alternatives CV was created to provide subordinated debt business loans to small businesses with the potential for growth (by regulation credit unions cannot offer subordinated debt). Unlike the credit union, Alternatives CV can receive charitable donations and foundation grants. These donations and grants provide key support for several credit union programs. Due to the strong blending of the two

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[6] Population and income data for Tompkins County and the City of Ithaca come from the 2000 Census. Information on credit union members is as of the end of 2006.

organizations, this case study will treat them as a common entity (Alternatives), except where separation is required for any explanations.

While Alternatives Group members are independently chartered and have independent Boards, they share a common community development mission. The four Alternatives Group affiliates, all located in Ithaca, are as follows:

- Alternatives FCU, a non-profit 501(c)(17) community development credit union and certified CDFI founded in 1979;
- Alternatives CV, a 501(c)(3) tax-exempt loan fund and certified CDFI founded in 1999;
- Alternatives Fund, a trade association of community, cooperatives, worker-owned businesses, and individuals; and
- Tompkins County Friends of Alternatives, Inc., a not-for-profit organization founded in 2002 allowing supporters to invest secondary capital in Alternatives FCU.[7]

Staffing

Alternatives FCU has 41 full-time staff members, 31 who primarily work on specific programs and 10 who work across programs. The credit union is monitored by a Board of 10 volunteer members. The credit union also has three AmeriCorps*VISTA volunteers. Alternatives CV does not directly employ any staff of its own, but has entered into a management agreement with Alternatives FCU. Through this agreement, Alternatives CV pays for about one full-time equivalent employee. A four-person Board governs Alternatives CV and is responsible for all decisions.

Products and Services

Alternatives' CEO reported that the credit union has always been focused on developing and implementing products and services to meet community needs. Consequently, Alternatives has continually experimented and introduced new programs that address changing needs in the local community. As a full-service credit union with a community development focus, Alternatives offers a range of consumer, business, and community development related products and services. These programs can be broken down into three main categories: consumer services, business services, and community development programs.

[7] Secondary capital is a subordinated loan that counts toward a CDCU's net worth. In the event of liquidation all other debts are repaid before the secondary capital loan is repaid. For regulatory purposes it is treated as net worth because it can be used to cover other debts.

Consumer Services

Alternatives' consumer services include savings-oriented and transactional accounts, such as share accounts (checking and savings), certificates of deposit, and IRA accounts. Also included in consumer services are various types of lending. These include consumer loans (lines of credit, car loans, etc.) as well as VISA cards, but by far the largest share of lending is home mortgage lending, which accounts for about 38 percent of the credit union's assets. In additional to traditional loan products, Alternatives offers a range of mortgage programs for borrowers who cannot secure a loan from traditional banks. Examples of these products are as follows:

Financial Products for Individuals

Start Date	*Product*
1979	Savings accounts
1982	Home mortgage loans
1990	Youth savings accounts (Dollars for Dreams)
1998	IDAs with matching grant
2005	Health savings accounts

- 100 percent Mortgage – product for members who can afford monthly payments but have insufficient savings to make a large down payment;
- Fresh Start Mortgage – product for individuals with credit problems, but who have 20 percent of the purchase price available as a down payment and sufficient monthly income; and
- Flexible-Plus Mortgage – product similar to a standard mortgage requiring 5 percent down, but with lower closing costs and more flexible qualification requirements, particularly for self-employed individuals.

One recent product development that illustrates Alternatives' ability to recognize local community needs is the Future Value Home Equity Loan program. Rapidly rising home values in Tompkins County was making it increasingly difficult for families of modest means to expand their homes or buy larger homes, even with one of the affordable mortgages listed above. Alternatives therefore created a construction loan product that allows families to expand their current homes using the expected future value of the homes as the basis for the loan, making it easier for these families to qualify.

Financial Products and Services for Businesses

Start Date	*Product*
1979	Small business loans
1986	Business roundtable discussions
1987	Small business venture capital network
1995	Microenterprise loans
1995	Small business counseling
1998	Business development services (Business CENTS)

Business Lending

Alternatives offers two types of business lending: loans from Alternatives FCU and subordinated debt business loans through Alternatives CV's Growth Opportunities (GO) Fund.

Several factors make Alternatives' approach to business financing unique. Overall, Alternatives is more flexible than other lenders. For example, the credit union is willing to accept lower rates of financial return because it believes that small businesses stimulate the local economy and provide

good jobs. An example of this is Alternatives' Women and Minority Subsidized Loan program, which targets women- and minority-owned business that are at least one year old, providing loans up to $25,000 at a fixed rate of 6 percent with a three-year term. Alternatives also offers loan programs for nonprofits, and lines of credit for businesses. Further, Alternatives funds a wider range of loan amounts than other lenders, ranging from microenterprise loans of as little as $500 to Small Business Administration (SBA) loans of up to $365,000. In 2006, the average loan amount was approximately $40,000.[8]

Another unique feature of Alternatives' business lending is that through Alternatives CV, it can offer subordinated debt loans of up to $30,000 through the GO Fund. Subordinated debt loans are loans that are repaid *after* any primary debt has been paid off, and as such are treated as pseudo-equity by other lenders. Subordinated-debt loans often act as keystone financing for small businesses, allowing them to leverage additional funding from other lenders as a result of the reduced risk. Alternatives CV has currently set the maximum lending amount for the subordinated-debt loans at $30,000 to build a diversified loan portfolio and thus minimize risk.

Finally, Alternatives is different from other business lenders because staff view themselves as clients' partners, seeking to help the businesses succeed instead of simply providing a loan and collecting the payments. Loan officers take the time to provide counseling services directly or to refer borrowers to other business development programs offered by the credit union (for instance, the Business CENTS program described below) or outside organizations.

With its ability to provide additional services, its genuine interest in the success of client businesses, and its flexibility in the type and amount of financial assistance it provides, Alternatives helps businesses in a way that other potential lenders in the area simply cannot.

Community Development Products and Services

In addition to consumer services and business lending, Alternatives FCU offers programs and services designed to meet its community development mission. One of these is the Business CENTS program, designed as a small business development service and started in 1998 when Alternatives took over a similar program from the city. The program offers an 11-week course called "Getting Down to Business." The cost of the class is calculated on a sliding scale and ranges from $35 to $150.

The Business CENTS program also offers one-on-one counseling, which provides assistance with preparing loan applications, financial statements, and marketing materials, and refers participants to other available resources. In addition, approximately once a month the Business CENTS program offers evening and daylong seminars on requested topics. Finally, the program provides a resource center for clients, including a library of journals, books, and other reference materials, as well as access to computers with business-oriented software such as QuickBooks and Photoshop.

[8] Stout, Linda. "Credit union named best in area." *Ithaca Journal* December 8, 2006: 1B.

Financial counseling and education programs for individuals are also central to Alternatives' mission. They include the Money Wise® class, which is free to all IDA participants and available to other participants for a sliding-scale fee. Alternatives' has found that many people are willing to pay for this program and that word-of-mouth advertising is very strong, indicating a significant demand for this in the community. The seven-week course is offered four times a year, and enrollment is typically complete about two months before each class starts. Participants are taught the simple act of tracking income and expenses each month and this typically dramatically changes their spending habits and helps them achieve their goals. This practical focus is different from other approaches to financial education that often involve worksheets that seem irrelevant to participants. The program also brings in outside instructors who discuss living wages, predatory lending, controlling expenses by recognizing techniques stores use to generate "impulse buying," and the importance of supporting local businesses. The focus of the class is to change the participants' relationship to money and to increase their understanding of credit and currency.

Financial Services for Individuals

Start Date	*Product*
1987	Individual counseling
2003	Free tax preparation
2004	Enhanced financial counseling

One-on-one financial counseling is also available to members. This counseling is intended to help members to determine where they are on the credit path, to assist with particular financial issues, and to direct them to relevant services and programs.

The credit union's Individual Development Accounts (IDAs) target low-income customers and are designed to help them save for large asset purchases. The accounts provide a matching grant at the end of the savings period for the purchase of a first home, for post-secondary education expenses, or to start or expand a small business. Funds for the matching grants are provided by local partner agencies, the Federal government, and donations from businesses and individuals. All IDA participants are required to take the Money Wise® class.

Research Activities

Start Date	*Research Project*
1981	Study of local home values
1993	Livable wage study
1995	Development of the Credit Path Model

The Student Credit Union was created to instill good savings habits in young people. The program originally started by focusing on high-school students, but has shifted its focus to elementary school students. Once a week, Alternatives' staff visit the elementary schools in the program and set up a temporary credit union kiosk where students can open savings accounts and make deposits or withdrawals. Some of the children are also trained as tellers and help other students with their transactions. About 70 percent of elementary school students who start the program are still saving money a year later.

Alternatives offers free tax preparation assistance to its members, which it considers an important way to keep assets in the local community. This program is coordinated with the IRS' Volunteer Income Tax Assistance (VITA) program. Alternatives estimates that the program gained community

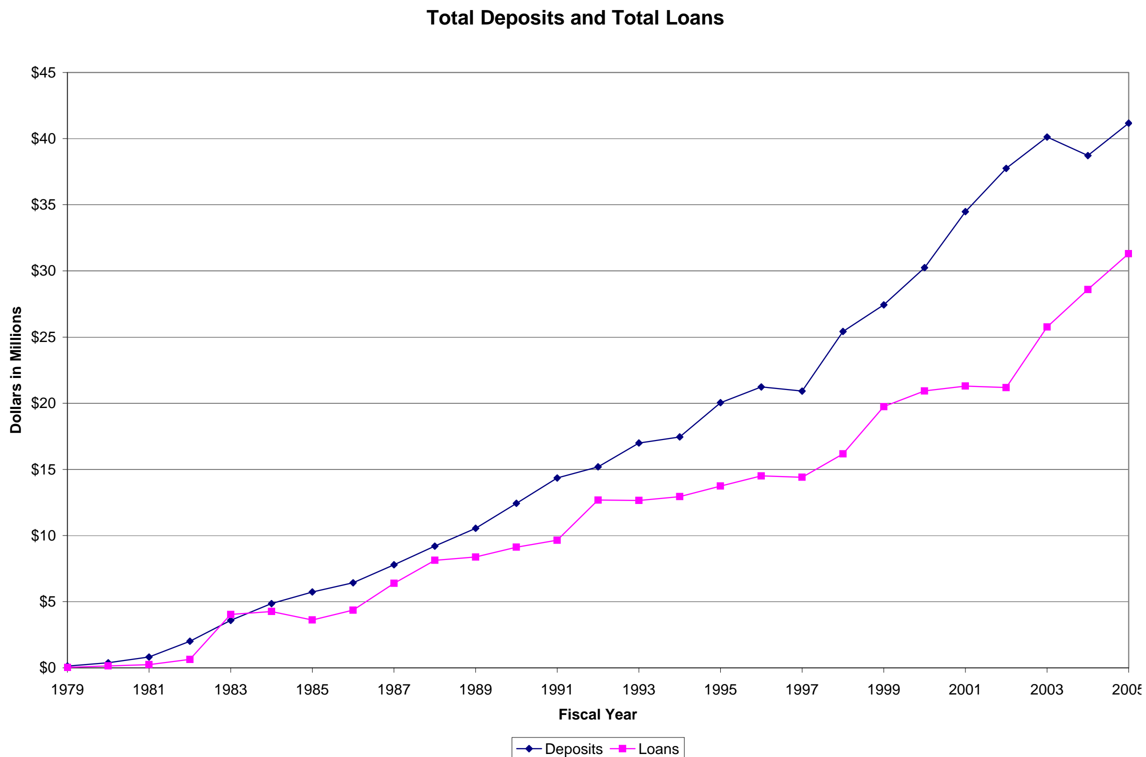
members $1.3 million in refunds and savings on tax preparation fees. This program was started to help taxpayers eligible for the Earned Income Tax Credit (EITC) to receive what was due to them. Alternatives also provides non-predatory refund anticipation loans. Staff report that these services help attract new members to the credit union.

Financial Information and CDFI Fund Awards

Financial Information

Although the CEO noted that growth has never been part of Alternatives' mission, the credit union has experienced almost constant growth for three decades. As of November 2006, Alternatives had more than $44 million in total deposits from more than 8,000 members and almost $33 million in outstanding loans, bringing its total assets to $50.5 million. As shown in Exhibit 2, there have only been a couple of years since 1979 in which the credit union has not grown.

Exhibit 2: Total Deposits and Total Loans[9]



Overall, the credit union has had consistent financial performance. For the last five years, the average loan to shares ratio has been about 67 percent, although this has been rising in the last couple of years toward the credit union's target of 80 to 90 percent, reaching 73 percent in November 2006. The breakdown of loans in 2005 was $18.5 million in mortgage loans, $9.6 million in consumer loans, and

[9] Information provided by Alternatives Credit Union.

$4.6 million in business loans. The average loan delinquency rate hovered around 4 percent in the latter portion of 2006, a rate that was slightly higher than the recent average according to credit union staff. The net worth ratio has ranged from about 8 percent to about 10 percent in the last five years, with the ratio at 7.99 percent in the third quarter of 2006 (after including secondary capital).[10]

Awards History

Alternatives FCU and CV have jointly received $4 million in CDFI Fund awards since 1997. Nearly all of this funding has been in the form of FA awards, with $1.35 million in secondary capital and $2.42 in grants. The total amount of TA awards received was approximately $260,000.

Year	Organization	FA Awards	TA Awards	Total Awards
1997	Alternatives FCU	$ 750,000	$ 57,000	$ 807,000
1999	Alternatives FCU	$ 1,700,000[11]	$ -	$ 1,700,000
2004	Alternatives FCU	$ 1,260,940	$ 157,350	$ 1,418,290
Subtotal		*$ 3,710,940*	*$ 214,350*	*$ 3,925,290*
2001	Alternatives CV	$ 60,000	$ 20,000	$ 80,000
2004	Alternatives CV	$ -	$ 26,425	$ 26,425
Subtotal		*$ 60,000*	*$ 46,425*	*$ 106,425*
Total		**$ 3,770,940**	**$ 260,775**	**$ 4,031,715**

Leverage of Non-CDFI Fund Monies

Alternatives has received funding from scores of other organizations besides the CDFI Fund, including government sources, private sources, and non-member deposits. The main government funders anticipated in the 2007 budget are the U.S. Small Business Administration ($120,000), Empire State Development ($100,000), and the U.S. Department of Housing and Urban Development ($47,000). Empire State Development is New York State's CDFI fund and requires CDFI Certification for all its applicants. Private funders include a number of foundations and associations (including the Community Development Trust, the Corporation for Enterprise Development, the Annie E. Casey Foundation and the FB Heron Foundation). Finally, there are several non-member depositors with large deposits in the credit union, many at below market interest rates. These non-member depositors include a wide variety of banks, credit unions, businesses, foundations, and associations

[10] The net worth ratio is the ratio of net worth to total assets. Net worth is comprised of undivided earnings, reserves, net income, and secondary capital. Total assets are cash, investments, facilities (land and building), fixed assets, and loans outstanding. An increase in secondary capital directly increases the value of the numerator and improves the net worth ratio.

[11] Alternatives reported that they received $1.7 million in FA awards for 1999. CDFI Fund records show an award of $2.0 million.

nationwide that support the activities of Alternatives by accepting lower than market level rates of return. In 2005, Alternatives received $941,779 in total grants, had over $1.3 million in below-cost deposits, and had almost $2.5 million in uninsured secondary capital on the books.

CDFI Fund Program Impacts

Impacts on the Organization

CDFI Fund FA and TA awards have had a significant effect on Alternatives FCU by providing secondary capital and supporting program needs. Without these awards, the credit union would be weaker financially and several of its programs would not be viable as currently structured.

Secondary capitalization is a form of award from the CDFI Fund that is unique to credit unions. Under the rules established by the National Credit Union Administration (NCUA), only low-income credit unions (LICUs) may accept secondary capital investments. These investments "...are distinguished from other forms of assistance because they are treated like equity and therefore increase net capital and net worth ratios."[12] New "Prompt and Corrective Action" regulations adopted by NCUA in August 2000 increased the focus on the importance of capital ratios at credit unions.[13]

Under-capitalization is a particular concern for LICUs as a result of the client base that they serve. Fortunately, as an equity-type investment, secondary capitalization provides overall support for the programs and services provided by these LICUs and allows them to be adequately- or well-capitalized. In November 2006, the secondary capitalization provided by the CDFI Fund awards improved Alternatives FCU's capitalization ratio from 3.7 percent to 8 percent. Credit union staff noted that the secondary capitalization is very important because it supports all of the credit union's activities and consequently allows it to remain focused on its mission. Staff also credited the secondary capital from CDFI Fund awards with enabling Alternatives to move to a new building in the center of town. This move in August 2002 raised the credit union's visibility and caused a spike in membership with an accompanying spike in member savings. Because of the significant secondary capital provided by the Fund, the credit union was able to maintain acceptable net worth and net capital ratios until it was able to increase its lending activity to match the newly available resources.

CDFI Fund awards also directly supported several Alternatives programs. Alternatives FCU allocated Fund awards to the IDA program (about $25,000 in the 2007 budget), the Business CENTS program ($35,000 in 2007), and the counseling program ($26,667 in 2007). Alternatives CV also uses the FA awards to make subordinated debt loans via the GO Fund program. In the absence of these CDFI Fund awards, the three funded programs would either not exist or be substantially smaller.

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[12] Williams, p9.

[13] Under NCUA guidelines, a credit union is considered "well capitalized" if it has a net worth ratio of at least seven percent. Credit unions with a ratio of between six and seven percent are considered "adequately capitalized." If the net worth ration falls consistently below six percent the credit union they are considered under capitalized and must develop a "net worth restoration plan." This impacts their lending ability as well as the programs that they may provide.

CDFI Fund TA awards have expanded organizational capacity through the purchase of needed technology and equipment and the provision of training on how to support unbanked and underserved individuals and small businesses. As an example, the 2004 TA awards were used to (1) support a massive computer upgrade to improve accounting, member services, and customer information; (2) complete construction of a high-tech training room in the new building; and (3) provide staff both on- and off-site staff training on topics such as business lending, underwriting, and customer service.

Impacts on Clients and Communities

Alternatives has impressive accomplishments, which have had a significant impact on its clients and on the community:

- Alternatives has successfully reached an underserved and unbanked population. In 2005, 1,368 new member accounts were opened, for a cumulative total of more than 8,000 members. Of the overall membership in 2004, about two-thirds were LMI individuals (46 percent very low-income, 20 percent low-income), 13 percent were unbanked for at least one year prior to membership, 68 percent were female, and 29 percent were minorities.
- In 2005, 128 credit union members received home loans, 80 of which were home equity loans. Of the 48 new originations, 20 were resold on the secondary market (the overall trend has been for Alternatives to hold more loans in portfolio). The total dollar amount of home mortgage lending in 2005 was $7.9 million. About a third (32 percent) of these borrowers earned less than 80 percent of area median income. The 1,782 cumulative mortgage closings through 2005 total more than $112 million in home loans.
- Consumer lending totaled almost $3.9 million in 2005 and helped 690 people with auto and credit card loans. Cumulative consumer lending through 2005 totaled $50.5 million.
- Business lending totaled almost $3.1 million in 2005, with 93 loans closed. Alternatives staff estimate that this lending was responsible for creating or retaining 219 jobs. More than half the loans went to individuals who had owned businesses for less than three years and more than a third went to women- and minority-owned businesses. Cumulative business lending through 2005 totaled $12.6 million among 3,514 loans, which created or retained 983 jobs. Almost half (47 percent) of cumulative loan recipients were women- or minority-owned business, and 63 percent to new owners.
- The Business CENTS course was offered nearly 30 times between 1999 and the end of 2006, with almost 2,000 clients completing the training. Thirty-six seminars have been offered. Among training recipients in 2005, 58 percent were women and 11 percent were minority clients, and almost two-thirds were very low or low income. Thus far, 45 of the 379 clients in 2005 opened or expanded their businesses, but this does not account for the potential lag between attending classes and starting a business.
- The Money Wise® class served 273 individuals in 2004, approximately 58 percent of whom were women or minorities.
- Members opened 39 new IDAs at the credit union in 2005, bringing total IDAs to 218 (76 in the process of saving, 142 who have graduated). Of the graduates, roughly equal

proportions have used their savings for business capitalization, homeownership, and post-secondary education, with a slight preference for business capitalization.

- As of December 2005, total deposits in the student credit union reached $760,026, including 1,225 savings accounts and 129 checking accounts for all credit union members under the age of 19.
- Alternatives estimates that the tax assistance program accounted for $2.6 million in tax refunds between 2002 and 2005, and has allowed 2,080 participants to save nearly $33,800 in refund anticipation loan fees. The program has added a total of 225 new members, approximately a quarter of whom were unbanked in the prior year. For 2005, the estimated total savings in tax preparation fees was $200,000.

Feedback from multiple sources strongly indicated that Alternatives has made a number of less quantifiable impacts on the community. Both the industry experts and customers interviewed reported that Alternatives is on the "vanguard" and "leading edge" of community development and is an institution that truly supports the community. Credit union members and business borrowers also felt that Alternatives' approach and reputation made it unique. They all said that Alternatives has a positive reputation for its focus on local development in the community and cited it as an important player in Ithaca's economic landscape. They noted that Alternatives was more flexible and willing to finance them than other financial institutions in the community might have been. This increased flexibility is reflected in Alternatives' willingness to make business loans for as little as $500 (micro-enterprise loans) and to make subordinated-debt loans through the Growth Opportunities (GO) Fund program. One customer described Alternatives as "what credit unions are supposed to be."

In addition, Alternatives' leadership reported that its successful small business lending programs have pushed other local institutions to modify their approach and products to remain competitive. More generally, the CEO reported that CDFIs play an important role by influencing traditional financial markets, inspiring some increased flexibility and the creation of products that suit underserved populations.

It is difficult to predict how community development locally would be different in the absence of Alternatives. Although it is possible that Alternatives may be crowding out other sources of similar services, its history of success and community-oriented products has undoubtedly helped to strengthen the community development of Tompkins and surrounding counties. For example, the City of Ithaca was running a program called the CEO program. It became clear that Alternatives was better equipped to run this program, and the city transferred it to the credit union, where it eventually became the Business CENTS program. Similarly, a representative from Tompkins Community Action indicated that because Alternatives provides a number of key services, the other community development organizations in the county can focus on other areas.

Impacts on Borrowers

This section briefly describes the impact of Alternatives' products and services on five borrowers: Drop-In Children's Center, Presto!, Ithaca Soy, Renovus Energy, and a home construction loan borrower.

Drop-In Children's Center (DICC)

The Drop-In Children's Center is a full-day and drop-in ("by the hour") childcare provider located in Ithaca, NY. DICC focuses on meeting the childcare needs of a diverse population, with particular emphasis on low-income families, children of color, and children of immigrants and legal aliens. Payment is made on a sliding, income-based scale, and the center currently serves approximately 80 families, with about 31 percent falling into the lowest-income category on the scale. In addition to fees, DICC relies on foundation and grant funding to support its operations, and on help from volunteer staff. DICC's Executive Director, Lynne Jackier, has been a member of Alternatives since the early 1980s, and when the center wanted to purchase a facility in 1996 it seemed a natural fit to use Alternatives for the business loan. DICC also financed an addition in 2005 through Alternatives. Jackier, who has taken advantage of some of the training available through the Business CENTS program, commented that the credit union's loan officer was very easy to work with and really took the time understand DICC's needs. She said that Alternatives behaved more like a stakeholder in the DICC and less like a bank, and noted that the credit union was very flexible throughout the loan process.

Presto!

In 1997, credit union member Nicole Carrier-Titti, who had been banking with Alternatives for about a decade, decided that she wanted to change careers and open her own business. She enrolled in Alternatives' Businesses CENTS classes in 1998 and through the curriculum developed the business plan for Presto!, a pottery studio where children can paint and decorate ceramic objects to take home. Upon the completion of the class, Carrier-Titti presented the business plan to Alternatives' lending department who approved a business loan. Presto! opened its doors in a nearby shopping plaza shortly thereafter and rapidly became a popular destination for children's birthday parties and rainy-day activities. The business was extremely successful, with several part-time staff hired. Unfortunately, due to personal circumstances, Carrier-Titti was forced to close Presto! in 2003, but she was proud of the business she had built and thankful for Alternatives' support of her dream.

Ithaca Soy

Thom Trause, owner of Ithaca Soy, has also had a long relationship with Alternatives. Since he had been a credit union member for more than 15 years, when it was time for him to buy out his partner and become the sole owner of the business he chose to contact Alternatives. A graduate of the Business CENTS class, he prepared a business plan and worked with the credit union's lending department to secure appropriate financing. Trause noted that the nature of Ithaca Soy's business, the production of high quality tofu for area restaurants and

stores, meant that any downtime during the purchase and relocation process would have been exceedingly costly as customers would have sought alternate suppliers. He said that he felt that Alternatives' loan officer really understood the problem, and consequently helped him to secure additional financing that allowed him both to purchase and to relocate the business with no lapse in production. Trause noted that high quality tofu, and the acceptance of the product, is driven by the individuals who produce it. Consequently, he said that he felt that rather than investing in Ithaca Soy, Alternatives was really investing in him. Said Trause, "I can't imagine any other place that would have helped me the way Alternatives did."

Renovus Energy

Renovus Energy is an Ithaca-based business specializing in the design and installation of non-polluting renewable energy systems for residential, commercial, agricultural, and institutional clients. The company was founded in 2003 when three local individuals who were working with similar goals realized the potential they would have if the coordinated their efforts. The proposed business had very little collateral and needed to make large capital investments. Art Weaver, one of the co-owners of the business, said that ultimately Alternatives was forced to decide "can Art Weaver make this work or not?" Of the various financing options the co-owners considered, only Alternatives seemed willing to take the risk and meet their capital needs. Part of the financing from Alternatives went towards creating a state-of-the-art facility showcasing the renewable resource technologies that Renovus installs, and which is now the company headquarters. Although the budget was very tight in the first couple of years of operations, the owners are starting to see their investment of time and energy pay off. Alternatives also helps to support the business indirectly by offering members reduced interest rate loans for renewable energy systems installations through the New York Energy $mart loans program. Weaver credits Alternatives for having the vision to help get Renovus off the ground.

Home Construction Loan Borrower

When credit union member Marcus[*] needed more space for his family he turned to Alternatives for help in securing a construction loan to help him expand on his home. The loan officer in the mortgage department suggested a creative combination of a construction loan and a home equity line of credit that could be blended to minimize the overall loan cost to make it more affordable. The credit union also referred Marcus to a reputable local builder-contractor who had worked with Alternatives in the past on a new construction project. Marcus was very pleased with the final result, and thankful for Alternatives' support in coordinating both the financing and the construction process. Similar to the business borrowers described above, the level of personal attention Marcus received resulted in a better outcome for both parties, and Marcus felt that this personal treatment set Alternatives apart from other possible lenders.

[*] The borrower wished to remain anonymous so an invented name has been used here.

Conclusion

Did the Fund awards allow Alternatives to (a) expand its community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

The CDFI Fund awards have been vital to Alternatives' ability to expand the products and services it provides to individuals and business in Tompkins County and surrounding counties. The secondary capital provided by Fund awards was critical because it enabled Alternatives to be well capitalized and to pursue its community development mission through a variety of products and services. By strengthening the credit union's bottom line, Fund awards increase Alternatives capacity to offer more varied lending. With such strong support from the Fund, the credit union is also able to offer educational programs and financial counseling for businesses and individuals, the student credit union, and the tax assistance program. In addition, Fund awards directly supported the credit union's IDA, Business CENTS, and financial education programs, providing primary support not available from other sources. Lastly, Fund awards are the primary source of capital to Alternatives CV, enabling the organization to make subordinated debt loans, which are absolutely essential to Alternatives' lending program.

CDFI Fund awards have also played a very important role in the Alternatives' ability to attract new members and borrowers by supporting the credit union in constructing and moving to a new building. This facility was key to the continued growth of the credit union because it gave them new presence in the market, new customers (due to the increased name recognition and convenience), and additional capacity to serve them. As a result, the credit union added new members and experienced a corresponding influx of savings. Thanks to CDFI Fund awards, the credit union was able to maintain acceptable net worth ratios until it was able to ramp up lending to match the increase in member savings.

Did the Fund awards help Alternatives to increase its community development outcomes?

Given the importance of CDFI Fund awards to Alternatives' finances, it is clear that the CDFI Fund has had a direct and substantial impact on the organization's community development outcomes. The awards are essential to Alternatives' ability to support several of its key programs. The lending activities supported directly and indirectly by CDFI Fund awards play two roles in the community. In some cases, lending from Alternatives is the only source of funds for home and business borrowers. In other cases, loans from Alternatives provide keystone financing, which allows business borrowers to leverage additional funds from other sources.

Did the Fund awards help strengthen the financial health of Alternatives as measured by key financial ratios?

The CDFI Fund awards have played a critical role in maintaining Alternatives' financial health. Under NCUA guidelines, a credit union's net worth ratio has important implications for its ability offer certain types of loans and programs. Without the significant secondary capital provided by the CDFI Fund, Alternatives' net worth ratio, like that of other CDCUs focusing on low-income

customers, would be below the requirements for an adequately- or well-capitalized institution and the credit union would have had to submit an action plan to correct the problem.

Did the FA awards help Alternatives to leverage other public and private non-CDFI Fund monies?

Alternatives' long history and wide recognition as a leading CDCU with a focus on the underserved and unbanked has two main implications for its ability to secure private and non-CDFI Fund financing to support its mission. The first is that many staff, including the CEO, have been working in the field of community development for long time, and consequently are very knowledgeable about available sources of funding. The second is that Alternatives' long history of success is attractive to lenders. As such, Alternatives is generally able to write targeted and successful applications for grants and awards. However, staff believe that the CDFI Fund's awards and certification program have helped Alternatives to highlight its community development mission to other potential funders, and as such has helped leverage additional funding from other sources. This is particularly true of certification, as one of the credit unions primary supporters, the Empire State Development Corporation, requires CDFI Fund certification as a prerequisite for grants.

Did the TA awards help Alternatives to (a) increase its organizational capacity, (b) improve its financial health, (c) increase its operational efficiency, (d) improve its portfolio quality, and/or (e) improve its community development performance?

The direct impact of TA awards on Alternatives' capacity and performance is difficult to quantify because these awards have served to strengthen the abilities of an already successful organization. Nevertheless, the awards have had an important impact on the infrastructure of the organization by funding the purchase of technology and software to support member and borrower services and client outreach. CDFI Fund TA awards have helped Alternatives to reach new customers by supporting increased web services; they have also supported important upgrades to the organization's accounting system. Additionally, the training received by staff has helped Alternatives to develop products and services that are tailored to the local environment, resulting in more successful product offerings. The TA awards have thus helped Alternatives provide better service to customers and benefited the community in general through increased opportunities for access to financial services, loans, and financial education.

Case Study: Florida Community Loan Fund

Summary

The Florida Community Loan Fund is a 501(c)(3) nonprofit organization founded in 1994 to address the lack of capital financing available to nonprofit organizations in Florida. FCLF provides products and services otherwise unavailable to the nonprofit sector, including loans for the development of low-income housing and supportive and social services facilities and technical assistance. The Loan Fund exclusively lends to organizations that serve socially and economically disadvantaged communities. By evaluating potential borrowers and projects with different lending criteria than conventional banks, FCLF enables these organizations to address needs in the community that were previously without financial support. FCLF is generally the only source of capital funding for non-profit organizations that cannot meet conventional banks' underwriting criteria.

FCLF is somewhat unique among CDFIs. First, it is the one of the only CDFIs in the country founded by members of Catholic Church. Sister Mary Heyser of the congregation of the Religious of the Sacred Heart of Mary and others formed the organization, and its first infusions of loan capital came from 11 different religious communities. However, FCLF is not a faith-based organization nor does it market itself as one. FCLF was also the first Florida-based CDFI to be certified by the CDFI Fund and remains the only statewide CDFI in Florida. The organization is noteworthy for its significant growth over the 10 years it has been in operation and the success of its loan program, both in community outcomes and in its almost nonexistent delinquency rate among borrowers.

FCLF has received five CDFI awards between 1998 and 2004 – two Technical Assistance (TA) awards totaling $75,000 and three Financial Assistance (FA) awards totaling $2.3 million. FCLF has primarily used the FA awards for equity capital.[14] Because the organization can leverage significant debt capital with its equity capital, it can lend a total of $4 for every $1 in equity capital. Approximately $1.675 million of the FA awards were used for equity capital, enabling FCLF to loan $6.7 million (roughly a quarter of the organization's cumulative lending to date). Since 1996 FCLF has made 117 loans to over 50 nonprofit organizations, totaling over $25 million. Through fiscal 2006, organizations receiving loans from FCLF have constructed or rehabbed 333 single-family and 1,203 multi-family homes, created 954 supportive housing units, and built 49 community facilities. Nearly 14,000 persons received direct support from FCLF-financed projects.

This case study describes of FCLF's products and services and explores how the receipt of CDFI Fund awards has affected the organization's ability to serve its target population and carry out its mission. The case study is based on a site visit to FCLF's headquarters in December 2006 and interviews with FLCF staff and Board Members, as well as customers and investors. It also draws upon data and reports provided by FLCF and FCLF's applications for CDFI Fund awards. The case study is organized into four main sections: Organization Background; Products and Services;

[14] Equity capital is the amount of equity available for lending or investing. It is capital that comes from grants, donations, etc. for which the program is *not* liable to repay. This term is also referred to as "net assets dedicated to lending" by nonprofit loan funds, "net worth" by credit unions, and "equity" by venture capital funds.

Financial Information; and CDFI Fund Program Impacts. The case study concludes by answering a series of specific questions about how the receipt of CDFI Fund awards has affected the organization.

Organization Background

History

In the early 1990s, Sister Mary Heyser of the congregation of the Religious of the Sacred Heart of Mary brought together 20 individuals from the community development field to rethink ways to address critical shortcomings in the capital funding system in Florida. She observed that Florida nonprofits were not able to fund their ongoing capital needs. Conventional banks reportedly found the organizations to be too risky and little state and Federal funding was available to fund capital needs. Sister Mary and others were determined to address both the lack of capital and the lack of a funding vehicle for these organizations.

Led by Sister Mary, this group of organizers conducted a comprehensive needs assessment in 1993 to determine the best vehicle to enable nonprofits to access capital funding. The loan fund model was chosen after a comprehensive best practices study of financing organization structures. The organizers also decided to create a statewide institution because the assessment found that rural areas all across Florida had significant needs that were not being met by existing funding streams. Additionally, the organizers determined that there would be less portfolio risk with greater geographic diversification.

Florida Community Loan Fund (FCLF)

- Incorporated in 1994
- Nonprofit loan fund
- Located in Orlando, FL
- Provides capital loans for housing and facilities development to nonprofits in FL
- 9 FTE employees work in five branches
- Total assets in 2006: $14.5 million
- Key outcomes: Through September 2006, FCLF made 117 loans to over 50 nonprofits, totaling over $25 million. These loans supported projects that constructed or rehabbed 333 single-family and 1,203 multi-family homes, created 954 supportive housing units, built 49 community facilities and provided direct support to nearly 14,000 people.

FCLF's mission has remained the same since its inception:

> *To provide loans on affordable terms and technical assistance to meet housing, economic development and social service credit needs in Florida's low-income communities.*
>
> *To assist traditionally under-served organizations and businesses in both urban and rural areas by complementing and extending the reach of conventional lenders and public institutions.*
>
> *To responsibly match resources from socially-concerned investors and donors to the needs of low-income people, significantly strengthening social and economic justice throughout Florida.*[15]

[15] Mission statement from FCLF's website: www.fclf.org

Initial investments in FCLF came from individuals, from Catholic Dioceses and other religious organizations in 1995 and 1996. Later donors included foundations and corporate banks. FCLF made its first loan of $50,000 in 1996, and had lent a cumulative total of $525,000 by 1998. The first FA award of $525,000 was received in 1999 and another $1 million in Financial Assistance was awarded in 2001. In 2004, FCLF began an ongoing partnership with Enterprise Housing Financial Services under which FCLF originates and Enterprise agrees to purchase loan participations totaling up to $6 million. FCLF received a third FA award in 2004 of $800,000. The types of loans and the target market of the Loan Fund have remained unchanged since its inception in 1994.

Clients and Service Area

FCLF's service area is the entire State of Florida. Florida is the fourth most populous state in America, with a population of over 16 million as of November 2006. According to 2003 Census data, median household income for the state is $38,985, compared with $43,318 nationally. Approximately 13 percent of the population lives in poverty, varying widely between regions and counties. Almost 20 percent of Florida's youth population lives in poverty, however, signaling increasing needs for organizations that serve this population.

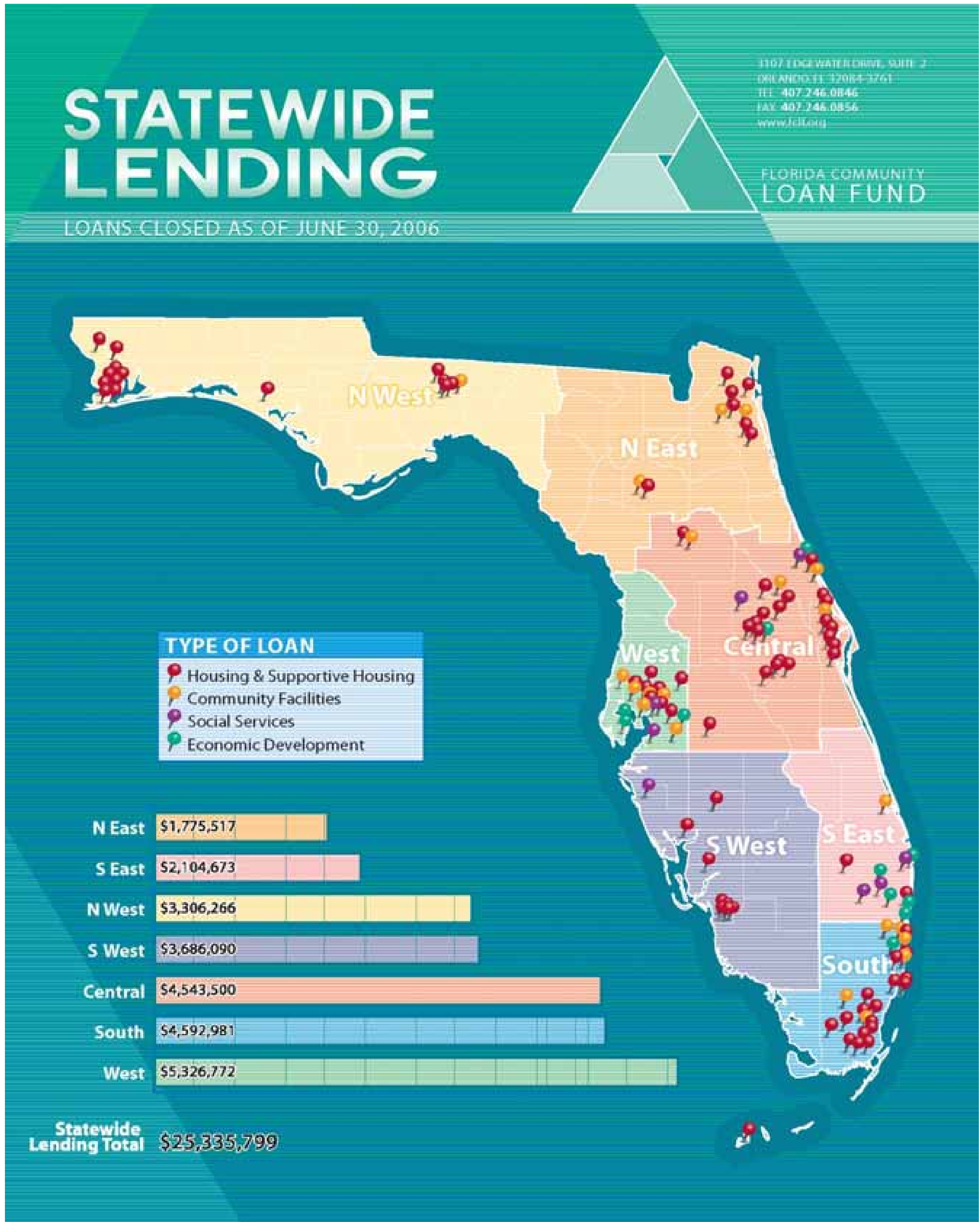
FCLF's loans are available to all nonprofit organizations that serve low-income persons and disadvantaged communities in Florida. Low-income is defined as at or below 80 percent of area median income. Eligible borrowers include nonprofit developers of affordable housing, social service agencies, loan programs, and nonprofit economic development organizations.

FCLF strives to make loans in all regions of the state. As shown in Exhibit 1, as of September 2006, organizations in the Central region of Florida had received the largest number of loans (28 out of a total of 117 loans), while those in the Southwest have received the greatest dollar amount ($5.3 million out of a total of $25.3 million). Across the state, the average loan amount is $216,545, ranging from an average of $162,268 in the Central region to $409,566 in the Southwest. Exhibit 2 shows the distribution of loans across the state as of June 2006.

Exhibit 1: FCLF's Regional Loan Distribution (through June 2006)

Region	# of Loans	Lending Total	% of Lending Total	Avg. Loan Amount
Southeast	9	$2,104,673	8.3%	$233,853
Central	28	$4,543,500	17.9%	$162,268
Northeast	10	$1,775,517	7.0%	$177,552
Southwest	9	$3,686,090	14.6%	$409,566
West	19	$5,326,772	21.0%	$280,356
Northwest	15	$3,306,226	13.1%	$220,415
Total	117	$25,335,799	100%	$216,545

Exhibit 2: FCLF's Statewide Lending Map



FCLF plays a unique role in providing capital funds to nonprofit organizations serving low-income people and communities in Florida. The FCLF customers and Board Members interviewed could not identify any other organizations in the state that serve the same function. Nonprofit organizations can borrow from commercial lenders, but often do not have the level of assets to qualify for conventional loans. Another difference between FCLF and conventional lenders is that FCLF provides loans for land acquisition for future development projects and is willing to invest in projects in their infancy, prior to other financial commitments.

The FCLF customers interviewed for this case study reported that they received some level of funding from Federal, state, and city grant programs but that this funding was often allocated specifically for program costs. In addition, several organizations mentioned the State Housing Initiatives Partnership (SHIP) created by Florida's Sadowski Affordable Housing Act. SHIP administers a housing trust fund generated from tax revenues. However, these funds are provided to local governments, which often choose to use the money directly instead of distributing it to other organizations. In recent years available funds have been largely redirected out of SHIP by the state government legislation, making them even harder to access.

Staffing

FCLF currently has a total of nine full-time employees in five offices throughout the state. The main office is located in Orlando and houses the Executive Director, the Chief Financial Officer, the Administrative Assistant and the Loan Portfolio Associate. The remaining employees work out of smaller offices in Jacksonville, Tampa, Sarasota, and Gainesville. Staff indicated that the organization's multiple locations are essential for marketing their programs to all regions of the state.

Products and Services

FCLF provides capital financing and technical assistance to nonprofit organizations that serve low-income communities in Florida. The Loan Fund provides capital loans with favorable terms to organizations specializing in affordable housing, supportive housing, economic development, and social services. FCLF purposely lends to a broad range of organizations in order to have the greatest possible impact throughout the state.

Capital Financing

FCLF makes several types of loans within two broad categories: housing loans and facilities and economic development loans. Affordable and supportive housing loans are simple-term loans used for the purchase or rehabilitation of properties for low-income rental or homeownership, for construction lines of credit, or for a combination of both. Facilities and economic development loans are made for the construction or rehabilitation of community facilities for organizations such as daycare providers, charter schools, job training organizations, shelters and health care organizations. As of June 30, 2006, FCLF closed on a total of 117 loans. Two-thirds of these (77 loans) were made for housing or supportive housing, and the remaining third (40 loans) were made for the construction or rehabilitation of community facilities. More than ninety percent of FCLF's loans are made for land or facilities acquisition.

Although most FCLF loans are similar, there are no set loan products. The Loan Fund customizes its loans based on each customer and project. FCLF can originate loans up to a maximum amount of $1,200,000. For loans larger than $600,000, FCLF lends up to $600,000 and its partner, Enterprise Housing Financial Services (EHFS), lends a matching amount. Under the agreement with EHFS, FCLF does all loan origination, administration and servicing. Loan terms are typically between 10 and 30 years. Current interest rates range from five (5.0) to seven (7.0) percent. Interest rates are determined separately to each loan based on the project, borrowing organization, and level of risk.

The Loan Fund is able to provide loans to organizations that conventional banks typically reject as too risky because of FCLF's more flexible lending policies. As shown in Exhibit 3, FCLF's underwriting criteria take into account project and organizational factors that conventional lenders may not.

Exhibit 3: FCLF's Loan Evaluation Criteria

Borrower Criteria	Project Criteria
Board makeup and expertise	Compatibility of purpose to FCLF's mission
Organizational cash flow	Leveraging potential
Staff expertise and experience	Involvement of other partners
Track record in developing projects	Tangible social impact
Mission and purpose	Community support for project
Legal requirements	Collateral value
Financial capability	Competition and marketability
Diversity of operational funding sources	Sources of repayment
Asset base	Cash flow analysis/Debt service coverage
Management capacity	
Credit history	

FCLF allows for up to a 95 percent deployment ratio (i.e., the ratio of the value of the loan to available capital). In contrast, according to a review of underwriting guidelines for conventional banks in Florida, the typical deployment ratio for commercial loans in the state is between 70 and 80 percent.[16]

Technical Assistance

In addition to loans, FCLF provides technical assistance to its clients. While FCLF's loan officer will provide advice and guidance, most of the technical assistance is provided through the Florida Housing Coalition (FHC). FHC is a nonprofit statewide membership organization whose mission is to bring together housing advocates and resources. FHC is funded through the state and provides training and technical assistance to individuals and organizations in the housing and economic development fields.

[16] Review of underwriting policies for SunTrust Bank, Washington Mutual, and Bank of America.

FHC provides complete housing development services, including assistance accessing government funding, filling out loan applications and developing project budgets, and training on program implementation, financial reporting and property management. FCLF has an agreement with FHC to provide whatever technical assistance its clients require on an as-needed basis at no cost to the client. FCLF has found that due to government funding of FHC, it is more cost-efficient to utilize their services than to provide technical assistance as a separate, in-house function.

All of FCLF's customers interviewed for this case study spoke very highly of their relationship with the Loan Fund. They were generally satisfied with FCLF's online loan application process, which they found to be streamlined and easy to understand. CDFI customers also spoke of the benefits of the technical assistance they received through FHC, which for many began during the loan application process. Once organizations have applied to FCLF, most will be funded. However, this does not take into account the filtering that takes place prior to the loan application. Loan officers at the Loan Fund work closely with customers to help them understand their qualifications and will inform them if they are not qualified prior to them spending resources to put together an application. Loan Fund staff note that the technical assistance and advice they provide throughout the loan application process is a major reason why FCLF's programs are so successful and why delinquency rates are comparably low.

Financial Information and CDFI Fund Awards

Financial Information

Exhibit 4 provides key financial information on FCLF from 1996 to 2006. Total assets have increased significantly in the 10 years the organization has been in operation: from $473,907 in 1996 to more than $14.5 million in 2006. FCLF's self-sufficiency rate has also increased steadily from 15.4 percent in 1996 to 71.7 percent in 2006.[17]

Of particular note is FCLF's extremely low delinquency rate among its accounts. Since 1996, FCLF has only charged off $14,000 from over $25 million in loans, a rate of 0.056 percent.[18] At the end of fiscal year 2006, FCLF had an overall delinquency rate (loans delinquent 60 days or more) of 0 percent. According to the Federal Reserve Bank, the average charge off rate for conventional banks in 2006 was 0.42 percent and the average delinquency rate was 1.57 percent. FCLF attributes its success in this area to the experience of its loan staff and the thoroughness of its underwriting processes, in addition to the availability of technical assistance to its clients. FCLF staff also work closely with borrowers to ensure their obligations are met. FCLF's lending staff and Board of Directors review the loan portfolio monthly, complete comprehensive portfolio reviews quarterly, and carefully monitor any overdue balances.

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[17] The self-sufficiency ratio provides a measure of the extent to which an organization can cover its expenses through internally generated income (e.g., fee income, program income, interest income, etc.) or total earned income. The self-sufficiency ratio is calculated as earned income divided by operating expenses.

[18] Accounts that an organization has written off because they will probably never be collectible are called charge offs, which appear as expenses on a balance sheet. Net charge offs are calculated as charge offs minus any assets recovered. Charge off rates are typically calculated as the total net charge offs divided by the average outstanding balance of all accounts for the time period in question.

Exhibit 4: FCLF Assets, Net Asset Ratios and other Financial Measures[19]

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Assets	473,907	1,422,267	1,977,426	3,353,959	7,386,167	7,619,623	9,178,474	9,731,715	9,275,000	11,996,889	14,522,222
Financing Originated	50,000	65,000	395,631	720,800	1,166,909	2,273,316	3,447,968	3,624,716	2,623,000	3,186,516	4,635,067
Portfolio Outstanding		98,851	262,547	828,464	1,462,873	1,218,544	3,688,460	6,899,917	7,962,442	9,529,902	12,018,845
Self-sufficiency rate	15.4%	25.7%	29.43%	34.18%	46.50%	87%	44%	55%	66%	66%	72%
Net Asset Ratio	21.3%	44.9%	29.81%	23.70%	20.03%	20.5%	20.36%	19%	20.7%	26.7%	23.7%
Delinquency Rate	0%	0%	0%	0%	1.57%	0%	0%	0%	0%	0%	0%
Charge-off rate	0%	0%	0%	0%	0%	0%	0%	0%	.13%	(.07 %)	0%

[19] Net assets provide a measure of how much an organization's assets exceed its liabilities. Net assets are calculated as total assets minus total liabilities. The net asset ratio is calculated as net assets divided by total assets.

Awards History

FCLF has received five CDFI awards since 1998 – three FA awards and two TA awards – totaling $2.4 million (see Exhibit 5). FCLF applied for $1 million in FA from the CDFI Fund in 2003 but did not receive this award. Loan Fund staff reported that the 2003 application was not as comprehensive as applications from previous and subsequent years.

Exhibit 5: CDFI Fund Awards to FCLF

Application Year/Program	FA	TA	Total Award
1998 CORE	$525,000	$25,000	$550,000
2000 SECA		$50,000	$50,000
2001 CORE	$1,000,000		$1,000,000
2004 FA	$800,000		$800,000
Total	**$2,325,000**	**$75,000**	**$2,400,000**

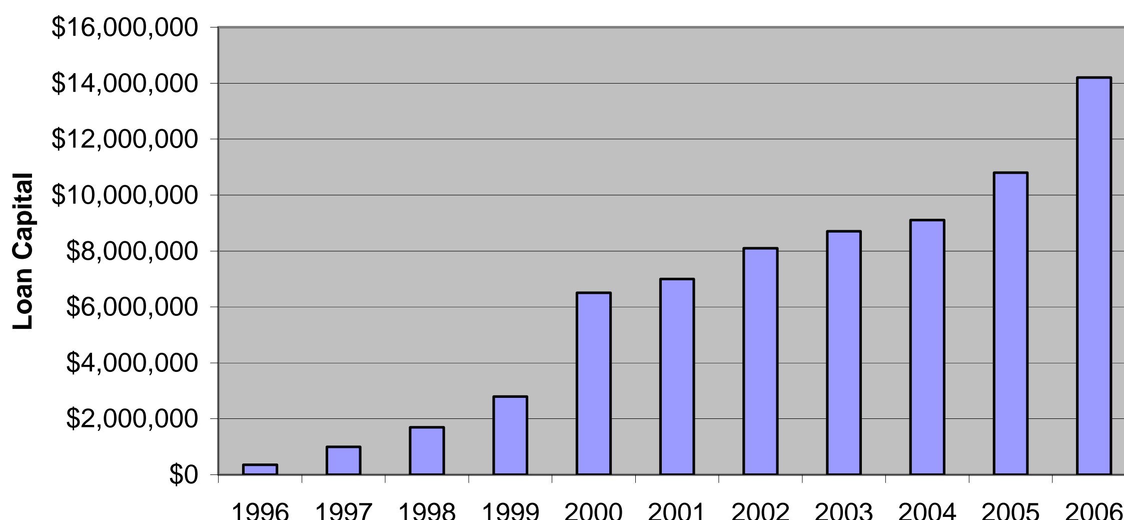
The initial CDFI Fund award (received in 1999) provided significant capital at a time when the organization was still getting off the ground. About $275,000 of FCLF's first FA award went toward equity capital. Because the Loan Fund can leverage significant debt capital with its equity capital, it can lend a total of $4 for every $1 in equity capital. As a result the CDFI's initial infusion enabled FCLF to lend $1.1 million. This is roughly equal to the organization's lending for 1998 and 1999 combined. Subsequent CDFI Fund awards have been leveraged in a similar manner.

In 2004, FCLF also received $15 million in New Markets Tax Credits (NMTC) from the CDFI Fund. This award will stimulate additional private investment and economic growth in low-income communities throughout Florida. Because the majority of projects developed by FCLF borrowers are not the size and scope needed for a NMTC transaction, FCLF views the CDFI Fund and NMTC awards as complementary programs that will allow FCLF to increase its community development outcomes.

Leverage of Non-CDFI Monies

FCLF began with a modest $15,000 in loan capital in 1995, which grew to more than $300,000 in 1996, $1 million in 1997, and $6.5 million in 2000 (see Exhibit 6). The Loan Fund's total capital at the end of fiscal 2006 was over $13 million, including both debt and equity. FCLF has been very successful in obtaining support from banks, foundations, and religious organizations because it meets needs in the community that no other organization does. Socially responsible investors can see the impacts in their community, realize charitable tax deductions, and receive positive, safe returns on their investments. In addition, FCLF makes it easy for partners to contribute to its organization by offering several different types of investment opportunities.

Exhibit 6: Growth in FCLF's Loan Capital



Equity Capital

Investments of equity capital have the greatest impact because FCLF is able to leverage this equity four-fold when making loans to organizations serving disadvantaged communities. Equity investments are generally made as permanent gifts or grants. At the close of fiscal 2006, FCLF's permanent capital was $2,452,766, which is approximately 18 percent of all investments. More than half (55 percent) of its current equity is from CDFI Fund awards, and approximately one-third (34 percent) is from foundation support. Major equity foundation supporters are the Fannie Mae Foundation and the Jesse Ball DuPont Fund.

Debt Capital

Debt capital represents the largest type of investment in the Loan Fund. Debt capital investments are low-interest or non-interest earning investments made by financial institutions, religious organizations, foundations, and trade associations. At the end of fiscal 2006, FCLF's debt capital exceeded $7 million with almost half (46 percent) invested by financial institutions. Major financial institution investors are Bank of America, BB&T, Commercebank, Northern Trust Bank, Regions Bank, SunTrust Bank, Wachovia and Washington Mutual. Religious organizations are the second largest group of debt capital investors, many of which represent the organization's original investors. In 2005, Washington Mutual made the single largest debt capital investment in FCLF to date, totaling $2 million.

Other Investments

FCFL also accepts a hybrid investment called the Equity Equivalent (EQ2) investment. EQ2s are long-term debt instruments with equity-like features carrying a minimum 10-year term of maturity. FCLF currently holds three EQ2s totaling $3,750,000 from financial institutions.

In addition, FCLF accepts tax-deductible contributions to support the Loan Fund's general operating expenses. These contributions support staff salaries and benefits, marketing, and client and investor

communications. Typically, these types of contributions make up only a small percentage of overall funding.

FCLF staff explained that the organization does not apply for any state or Federal funding other than CDFI Fund awards because they are not aware of any appropriate opportunities. There is no established state grant program that supports this type of organization. In addition, the philanthropic community in Florida is reportedly not as robust and less focused on community development initiatives as in other states. Individuals typically donate to organizations in their home state, and since many Florida residents are part-time or seasonal, Florida nonprofits often do not benefit from the population's charitable donations.

Lending Results

While the types of loans and the target market of the Loan Fund have remained unchanged since its inception in 1994, every additional infusion of capital has enabled FCLF to increase the number and amount of its loans. In the past decade, the amount of loans closed per year and the average loan amount has increased dramatically (see Exhibit 7). In fiscal year 2006, FCLF closed 18 loans, compared to one per year in 1996 and 1997. The average loan amount increased from $50,000 in 1996 to $398,349 in 2006. Total annual lending increased from less then $100,000 in the first two years of operations to over $7.2 million in fiscal 2006 (see Exhibit 7).

Exhibit 7: FCLF Lending Activity – Fiscal Years 1996-2006

Fiscal Year	Loans Closed	Total Loans Amount	Average Loan Amount
1996	1	$50,000	$50,000
1997	1	$65,000	$65,000
1998	7	$410,589	$58.656
1999	9	$720,800	$80,089
2000	9	$1,086,909	$120,768
2001	13	$1,822,251	$140,173
2002	14	$3,720,300	$265,736
2003	19	$3,515,606	$185,032
2004	11	$2,970,500	$270,045
2005	15	$3,460,500	$230,700
2006	18	$7,170,230	$398,349
Total	**117**	**$24,992,705**[20]	**$213,613**

[20] Total lending from 1996 to 2006 does not equal total lending during this same time period as listed in Exhibit 1, FCLF's Regional Loan Distribution due to how FCLF accounts for revolving lines of credit. The annual lending amounts include only loan amounts while the regional list includes some funds being lent more than once on a revolving line of credit.

CDFI Fund Program Impacts

Impacts on Communities

FCLF has accomplished an impressive amount during its first decade of operations. Since 1996, FCLF has made 117 loans to over 50 nonprofit organizations, totaling over $25 million. The $25 million in loans has leveraged an additional $150 million toward total project costs. Through fiscal 2006, FCLF reports the following impacts:

- 333 single family homes were constructed or rehabbed;
- 1,203 multi-family units were constructed or rehabbed;
- 954 supportive housing units were created;
- 49 community facilities were built, including:
  - 30 supportive housing facilities
  - 9 shelters,
  - 3 daycare facilities, and
  - 3 health care facilities;
- Nearly 14,000 persons received direct support from projects financed by the Loan Fund.

FCLF customers and staff report that many FCLF-supported projects would not have come to fruition without assistance from the Loan Fund. Conventional banks often turn down nonprofit organizations, especially those that rely heavily on government funding, because they are considered to be high-risk. FCLF's flexible lending policies provide project financing that may not be otherwise obtained.

Discussions with FCLF staff and a review of FCLF's financial documents clearly demonstrate that the CDFI Fund has played a significant role in FCLF's ability to increase the amount of its financing to Florida nonprofit organizations, both in the number of loans made and in the amount of the loans. From its first year of lending a decade ago, the maximum loan amount that FCLF has been able to make has increased from $100,000 to $1,000,000. This increase is in direct relation to the amount of equity capital that FCLF has been able to raise. It is the general policy of the Loan Fund to maintain a 1:4 ratio of equity capital to the loan portfolio. Out of the $2.3 million in FA awards it received from the CDFI fund, FCLF put $1.675 million towards equity capital. This equity capital leveraged debt capital, enabling the organization to make $6.7 million in loans as a direct result of the FA awards, which represents roughly a quarter of FCLF's cumulative lending.

The two CDFI Fund TA awards contributed to FCLF's organizational development by enabling the organization to hire a consultant who conducted a customer service survey, improving client relations. The TA awards also contributed to technology upgrades and new loan administration software, which have been important tools in FCLF's lending business. Lastly, the TA awards contributed to computer training for staff.

Impacts on Borrowers

This section examines the impacts of FCLF's products and services on two of its borrowers. The brief studies below each describe a client organization, illustrating how FCLF's loans impacted the organization and its constituents.

Community Enterprise Investments, Inc.

Community Enterprise Investments, Inc. (CEII) is a nonprofit community development corporation based in Pensacola, Florida. Incorporated in 1972, CEII provides loans to small businesses in Northwest Florida and was one of the original Community Development Corporations funded by the Office of Economic Opportunity's "War on Poverty." CEII is also a certified CDFI and has received one $50,000 technical assistance grant from the CDFI Fund.

CEII makes small business loans ranging from $2,500 to $150,000 with terms of five to ten years. With a combination of city, county and bank funding contributing to its loan pool, CEII has made 476 small business loans totaling over $13 million as of November 2006. In addition to lending, CEII also develops housing units for low-income renters and buyers and provides homeownership counseling to its customers. CEII currently manages all 175 of its rental units.

CEII is a frequent customer of the Loan Fund. CEII received FCLF's very first loan in 1996 for $50,000. These funds were used to acquire and rehabilitate single-family homes to be sold to low-income buyers. Since then, CEII has borrowed $832,000 from FCLF through seven loans. Two of the loans, for $200,000 and $150,000, contributed to the construction of affordable single- and multi-family rental housing. Two other loans totaling $82,000 were used to repair damage sustained by Hurricane Ivan. The remaining three loans were used to acquire land for future construction of low-income rental and homeownership units. FCLF financing is particularly helpful because of the flexibility in how it can be used. For example, CEII would not have been able to borrow or use financial support from its government funders for land acquisition, making the FCLF loans key sources of financing for CEII's construction projects.

Projects that were funded by FCLF loans produced the following development outcomes:

- Construction of 8 units of affordable single-family rental housing
- Construction of 11 units of affordable multi-family rental housing
- Construction of a 52-unit and a 47-unit development with both affordable rental and homeownership
- Acquisition and development of seven single family homes for affordable rental and homeownership
- Repairs to 80 units of affordable rental housing due to hurricane damage

Black Business Investment Fund

The Black Business Investment Fund (BBIF) is a 501(c)(4) nonprofit organization formed 20 years ago for the purpose of providing small business loans to minority-owned businesses. BBIF provides direct loans to operators of small businesses in four Florida counties: Orange, Seminole, Ocala, and Lake. Loans average $50,000, with a general maximum of $75,000, which can be raised to $100,000

with Board approval. Loan terms are generally three to five years. BBIF also provides technical assistance services to small businesses.

In 2005, BBIF received a $580,000 capital loan from FCLF to acquire 1.2 acres of land in the Parramore area of downtown Orlando for a mixed-income, mixed-use housing and retail facility. Combined with other BBIF resources, the land was purchased from the City of Orlando for $814,000. The planned Carver Theatre Redevelopment Project will be comprised of 45 residential units (of which 13 are affordable to low-income households), a performing arts theatre, a fitness facility, 20 offices, 41,000 feet of retail space, and a 250-space parking garage. The project will break ground in April 2007 and will be ready for occupancy by July 2008. The financing for this $32 million project includes low-income housing tax credits, a construction write-down from the City, and a capital construction grant of $1.5 million from Orange County.

The Carver Theatre Redevelopment Project is immensely important in the Parramore area of Orlando. The construction of Interstate 4 effectively cut Parramore off the area from the rest of downtown Orlando and led to gradual social and economic deterioration of the neighborhood. Today the area is infamous as a blighted, crime-ridden community. The BBIF project is one of the first in what they hope to be many revitalization projects in the area. The facility is expected to bring in new residents, new businesses, and a total of 300 new jobs to Parramore.

FCLF's loan to BBIF was particularly beneficial because it could be used for land acquisition, which is not always the case for conventional loans. BBIF acknowledged it could have looked to other sources for this funding but would not have received the same level of funding due to FCLF's deployment ratio or have been able to develop the project with the flexible financial structure that FCLF allowed.

Review of Hypotheses

Did the Fund awards allow FCLF to (a) expand its community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

Discussions with FCLF staff and a review of FCLF's financial documents clearly demonstrate that the CDFI Fund has played a significant role in FCLF's ability to increase the amount of its financing to Florida nonprofit organizations, both in the number of loans made and in the amount of the loans. From its first year of lending a decade ago, the maximum loan amount that FCLF has been able to make has increased from $100,000 to $1,000,000. This increase is in direct relation to the amount of equity capital that FCLF has been able to raise. It is the general policy of the Loan Fund to maintain a 1:4 ratio of equity capital to the loan portfolio. Out of the $2.3 million in FA awards received from the CDFI Fund, FCLF used a total of $1,675,000 for equity capital, which has contributed significantly to the organization. This equity capital has translated into approximately $6.7 million in loans, about a quarter of FCLF's overall lending amount.

FCLF has purposely not changed its loan products since the inception of the organization; the mission has always been to serve the capital financing needs of Florida nonprofits. FCLF is still serving the same market segment but with more innovative and powerful financing solutions that would not have

been realized without CDFI funding. The increase in loan amounts made possible by the CDFI Fund awards has also enabled FCLF to expand the types of loan products offered.

The CDFI Fund grants have also enabled FCLF to expand its marketing of services to previously underserved communities and organizations. FCLF's 2000 application to the Fund indicated planned expansions to a number of targeted borrower types: economic development organizations, faith-based community development corporations, expiring use properties, and rural self-help housing organizations. Since fiscal 2001, after receiving the 2000 CDFI fund award, FCLF has been successful in reaching these types of organizations. A review of FCLF's lending activity shows at least three loans to economic development agencies totaling more than $500,000 and 11 loans to faith-based organizations totaling approximately $2.8 million. Prior to the 2000 CDFI award, FCLF had not made any loans to either type of organization.

Did the Fund awards help FCLF to increase its community development outcomes?

It is difficult to quantify the impact of the CDFI awards in increasing FCLF's community development outcomes. Due to the amount of equity capital that the CDFI Fund granted to FCLF, one can estimate that approximately one quarter of FCLF's outcomes are a direct result of CDFI awards: 100 single family homes, 318 multifamily units, 93 supportive housing units, and 6 community facilities. Also, it is likely that FCLF would not have attracted additional capital from other sources if it did not receive funding from the CDFI Fund.

Did the Fund awards help strengthen the financial health of FCLF as measured by key financial ratios?

FCLF's financial health has been steadily improving over the last 10 years, with self-sufficiency ratios increasing from 14.6 percent in fiscal year 1996 to 72 percent in 2006. Likewise, the change in net assets increased from $473,907 in 1996 to over $14 million in 2006. CDFI funding has allowed the organization to grow at a significant rate in its first decade of operation, increasing its loan volume from $115,000 in lending its first two years to more than $4 million in lending in 2006 alone. FCLF has increased its staffing from two in 1998 to its current staff of nine. Its two technical assistance awards also contributed to the financial health of the organization by providing funds for new technologies, thereby increasing the efficiency of the organization.

Did the FA awards help FCLF to leverage other public and private non-CDFI Fund monies?

The role that CDFI Fund FA awards played in FCLF's ability to leverage other funding is not clear. However, one can estimate the impact of the CDFI awards based on FCLF's total financial leverage of about $150 million for its cumulative $25 million in loans made. As stated previously, the $2.4 million in CDFI funding led to approximately $6.7 million in lending. Since FCLF reports a 6:1 ratio of leverage realized for every dollar in lending, CDFI funds have potentially leveraged over $40 million in additional funding from other sources thus far. The majority of the CDFI funding is still circulating through the Loan Fund and will continue to generate additional leverage well into the future.

Did the TA awards help FCLF to (a) increase its organizational capacity, (b) improve its financial health, (c) increase its operational efficiency, (d) improve its portfolio quality, and/or (e) improve its community development performance?

FCLF received two TA awards: $25,000 in 1998 and $50,000 in 2000. The awards were targeted toward several operational purposes, including hiring a consultant to conduct market research on behalf of the organization, including a customer satisfaction survey, upgrading FCLF's computer hardware and software, and providing computer training for staff. Overall these awards did contribute to the organization's efficiency and its community development performance. While each of these activities and upgrades were important, these TA awards contributed a relatively small portion of the total amount that FCLF invests in its organizational capacity.

Case Study: Illinois Facilities Fund

Summary

The Illinois Facilities Fund is a 501(c)(3) nonprofit organization established in 1988 to meet the need for capital financing for nonprofit organizations throughout the state of Illinois. The IFF began as an offshoot of the Chicago Community Trust foundation to address the energy needs of nonprofit human service organizations. As a separate nonprofit organization, IFF has lent more than $140 million to over 300 organizations for their capital needs. The IFF provides products and services that otherwise do not exist in the Illinois nonprofit sector, including loan products at terms more favorable than those at conventional banks, technical assistance, real estate advisory services, and research services.

IFF has received seven CDFI awards between 1996 and 2006 –all Financial Assistance (FA) awards totaling $9.1 million. IFF has used the FA awards strictly for equity capital. The organization can leverage significant debt capital with its equity capital, by lending a total of $4 for every $1 in equity capital. The $9.1 million from the FA awards enabled IFF to loan $36 million (roughly a quarter of the organization's cumulative lending to date). Though its history, IFF-funded projects have created over 17,000 jobs and nearly 1,000,000 people have been impacted.

This case study provides a detailed description of IFF's products and services and explores how the receipt of CDFI Fund awards has affected the organization's ability to serve its target population and carry out its mission. The case study is based on a site visit to IFF's headquarters in December 2006 and interviews with key staff and stakeholders. It also draws upon data and reports provided by IFF and IFF's applications for CDFI Fund awards. The case study is organized into four main sections: Organization Background; Products and Services; Financial Information; and CDFI Fund Program Impacts. The case study concludes by answering a series of specific questions about how the receipt of CDFI Fund awards has affected the organization.

Illinois Facilities Fund (IFF)

- Incorporated in 1988
- Nonprofit loan fund
- Located in Chicago, IL
- Provides capital loans to nonprofits in IL, and will add clients in WI, MO, IA and IN
- 40 FTE employees work in two branches
- Total assets in 2005: $90 million
- Key outcomes: Through 2006, IFF made nearly 500 capital loans to 300 IL nonprofits, totaling over $140 million, impacting the lives of almost one million individuals and creating 17,000 new jobs. Over 6.5 million square feet of new or upgraded facilities were funded, 59 real estate projects were completed, 75 classrooms were built or upgraded, and 153 childcare facilities were funded.

Organization Background

History

The IFF began as a pilot program of the Chicago Community Trust (CCT), a charitable giving organization that has served Chicago for over 90 years. In response to the national energy crisis of 1980, the Trust organized a committee of five foundations to explore ways to provide loans to human

service agencies for energy efficiency improvements to their facilities. This committee became the Joint Foundation Energy Conservation Fund (JFECF), a program of the CCT. JFECF undertook a comprehensive needs assessment of Chicago's nonprofit organizations and discovered that these organizations lacked financing for their capital needs.

CCT understood that the key to financial independence and growth of nonprofits was building assets in a way that would not increase their operating costs. CCT determined that it could underwrite loans to these organizations based on allocating government reimbursements and subsidies toward property improvements. In the early 1980s, CCT established a pilot loan program to test this financing strategy. CCT contributed $1 million to a loan pool and JFECF made low-interest loans to 18 nonprofit organizations in Chicago. The $1 million loan pool was initially directed toward solely organizations that served children. CCT determined the program was successful and elected to spin off the group into its own entity. The Illinois Facilities Fund (IFF) was incorporated in 1988 with $1.7 million in initial funding from the Chicago Community Trust. IFF received nonprofit status in 1990, and in 1996 became one of the first CDFIs in the country to be certified.

IFF Timeline

1979	Chicago Community Trust forms the Joint Foundation Energy Conservation Fund (JFECF) to assist nonprofits in reducing energy costs.
1983	Chicago Community Trust grants $1 million to provide capital loans to agencies serving children.
1986	The Trust implements a second round of loans and begins a revolving loan fund
1988	The Illinois Facilities Fund (IFF) is incorporated.
1990	IFF receives nonprofit status and all loans made in the pilot programs are transferred to IFF.
1993	Continental Bank makes the first commercial investment in IFF.
1995	IFF negotiates a $10 million agreement with six banks to bring capital to the loan fund.
1996	IFF becomes certified as a CDFI.
1997	First CDFI fund award received in the amount of $900,000.
2000	IFF creates The Center for Early Education Management and Finance.
2004	IFF raises more than $25 million in commitments from the Investor Consortium.

The IFF has made over 500 loans to approximately 300 organizations; totaling more than $140 million. At the close of fiscal 2005, IFF's total assets were $90 million, with almost $72 million in portfolio outstanding. IFF currently has 40 full time equivalent staff members. In addition to its main office in Chicago, IFF operates a smaller two-person office in Peoria, IL.

Mission and Clients

IFF's original mission of was to provide below market loans to Illinois nonprofits for the purposes of facilities acquisition, construction, and rehabilitation. Since its inception, IFF has also provided technical assistance services to its clients. This capacity has since expanded into a fee-for-services department of the loan fund.

IFF's current mission is to assist nonprofits in its target markets through below-market real estate loans, facilities planning and development, research projects, and community planning initiatives. IFF serves the entire state of Illinois and has expanded its loan activities to additional Midwestern target

markets including Milwaukee, St. Louis, Gary/Hammond, Indianapolis, and the Quad Cities. Its target market includes all nonprofits in these areas that serve low-income or special needs communities. IFF's goal is to become the provider of choice for the infrastructure needs of nonprofit organizations throughout the Midwest.

IFF has worked with approximately 300 nonprofit organizations since its inception. As shown in Exhibit 1, IFF has made loans to nonprofit organizations in a variety of sectors, including childcare, education, health care, and supportive housing.

Exhibit 1: Cumulative Recipients of IFF Loans by Organization Type through Fiscal Year 2005

Organization Type	Percent of Loans
Childcare Centers	19%
Multi-service Centers	17%
Education	14%
Special Needs	10%
Health Care	8%
Supportive Housing	6%
Youth Services	5%
Other	21%
Total	100%

Childcare and Early Education has been a focus of IFF since its inception. In 1992, IFF partnered with the Illinois Department of Children and Family Services to administer $13 million in tax-exempt bonds for the construction of seven childcare centers. As part of the deal, IFF agreed to own the facilities for a period of 10 years. This project enabled IFF to grow its development expertise and established the organization as a leader in the childcare facility field. Since 1992, the IFF has provided $36 million in loans to nonprofits for the construction or rehabilitation of numerous childcare and early education centers. In 2000, IFF created The Center for Early Education Management and Finance, a five year organizational development program.

IFF has been able to serve so many different sectors well because of the research it conducts into its target markets. As the Fund prepares to enter a new field, it conducts a needs assessment that often leads to new opportunities for the organization. In 1990, IFF commissioned the study Nonprofit Human Service Facilities in Illinois: Structure, Adequacy, and Management, which provided a significant amount of data on the facilities needs of nonprofits throughout Illinois. IFF later conducted studies on facilities needs of Head Start agencies and on community-based housing for people with mental illness. Both of these research projects led to IFF becoming a specialist in that field. IFF staff also develop expertise in a particular sector over time by working directly with service providers in that field. As staff learn more about the market, they generate more ideas on how to serve nonprofits in different sectors effectively.

IFF does not have a formal marketing department but does have internal outreach and expansion plans supported by the Director of Business Development. The majority of IFF's clients come to the

organization through word of mouth from IFF's investors, clients, and civic leaders. Often commercial banks refer potential clients to IFF if the banks determine their products are not appropriate for the organization.

Service Area

More than half (55%) of the organizations that borrowed from IFF through 2006 have been from the City of Chicago, and an additional 21 percent of borrowers are from the greater Chicago metro area. Although the majority of IFF's clients come from the Chicago area, IFF has always been a statewide organization. This is largely due to the funding available to IFF from state sources. The IFF is the only CDFI in Illinois to serve nonprofits throughout the entire state. About a quarter (24 percent) of the Fund's clients are located in Illinois communities outside the Chicago metro area, with about half of these (11 percent) located in rural cities with populations of less than 50,000.

IFF recently conducted significant research into the facility needs of nonprofit organizations in Wisconsin, Missouri, Iowa, and Indiana and determined that significant needs existed. In addition, there were no CDFIs or other entities providing facilities lending in these states. As a result, in 2006 IFF expanded its service area to include these four states. In addition to meeting the states' needs for facilities lending, the expansion made sense because many of IFF's investors are national banks that want their community investments to serve the entire Midwest. Currently, IFF's lending activities are being targeted to the five metropolitan areas (Gary/Hammond, IL; Indianapolis; Quad Cities – Rock Island and Moline, IL; Milwaukee, and St. Louis) with the closest proximity to the greater Chicago area.

Products and Services

IFF provides four main services to Illinois nonprofits: capital lending at below-market interest rates, facilities planning services, real estate development services, and research and evaluation services.

Capital Lending

IFF's main function is operating a capital loan fund for nonprofit organizations. Standard loan products include mortgages for facilities acquisition (terms up to 15 years), new construction loans (20-year terms), and equipment purchase loans (5-year terms). Interest rates are below prime and based on adding between 125 and 175 basis points to the 15-year treasury rate on the first day of each month. Interest rates for all borrowers are purposely determined in the same manner to assist each borrower equally.

IFF's current loan portfolio was almost $72 million, as of the end of fiscal year 2005. The average loan amount was $300,000, the average term was 13 years, and the average interest rate was 5.7 percent.

All loan applications are reviewed by the Senior Loan Officer, who visits each organization in person prior to underwriting. Each requested loan is reviewed either by an internal committee of IFF employees or by a virtual task force of non-IFF employees, half of whom are bankers and half of whom are in senior management positions in nonprofit organizations.

IFF loans are advantageous to nonprofits compared with loans from commercial lenders for a number of reasons. In addition to below-prime interest rates, there are no loan fees of any kind including no application charges, no origination fees, no financing fees, and no prepayment penalties. The absence of these charges, which are typical for most conventional loans, often produces significant savings for nonprofit organizations. For example, in 2005 alone, IFF estimated that borrowers saved $1,090,166 as a result of its no fees policy.

In addition to providing lower cost loans, IFF is flexible with its security or collateral requirements for facility and housing loans. IFF's down payment requirements are often lower than conventional standards. IFF is also willing to work with individual borrowers and banks to consider first or second position financing. IFF makes every effort to work with nonprofits to determine a financing solution that works best for their individual needs.

Real Estate Advisory Services

The real estate advisory services department is an outgrowth of IFF's loan program. IFF has always provided technical assistance services to its borrowers through the lending process, but it wasn't until 1996 that the Board decided to formalize these services into a separate department. Initially staff did not think that the group would be able to cover much of its expenses without subsidies from the other areas of the Fund. However, by 2000 the department was able to cover about half of its operating costs with program income. Today the program is almost self-sufficient.

The real estate advisory services department performs several functions, including facilities planning and real estate development. Facilities planning services include feasibility studies, space allocation analysis, project budgeting, and lease versus buy analysis. The second area of the department is real estate development and project management. Services include site acquisition consulting and negotiations, architect and contractor selection, and project management.

IFF also maintains a comprehensive online Facilities Resource Center that includes project management how-to guides and worksheets covering topics such as conducting a facilities needs assessment, selecting contractors, and creating a project budget. IFF also operates a statewide Real Estate Referral Network to help nonprofits locate qualified project managers, architects, and general contractors and conducts technical assistance workshops throughout the state.

Research Services

The IFF conducts independent, external research and evaluation for government agencies, foundations, and nonprofit organizations. IFF has conducted research projects and evaluations across a number of sectors, all of which aim to promote better understanding and service improvement in underserved, disadvantaged communities (see Exhibit 2). All IFF publications are available for free on its website, www.iff.org.

Exhibit 2: Recent IFF Research Studies

Document Title	Publication Date	Description
Stepping Out	2006	A planning tool for developing community facilities for mixed-income communities.
Getting it Right: How Illinois Nonprofits Manage for Success	2005	A survey co-sponsored by IFF and the Donors Forum of Chicago on the financial health of nonprofits in Illinois.
Here and Now: The Need for Performing Schools in Chicago's Neighborhoods	2004	A planning tool for government agencies that ranks Chicago's 77 community areas in terms of educational needs.
The Building Blocks of Design: A Handbook for Early Childhood Development Facilities	2004	A guide and reference tool for early childhood development centers.

Financial Information and CDFI Fund Awards

Financial Information

Exhibit 3 provides key financial information on IFF between 1996, IFF's first year as a certified CDFI, and 2005, the last fiscal year with audited financial information available. Total assets increased significantly over this time period, from approximately $28 million in 1996 to $90 million in 2005. IFF's self-sufficiency rate has been consistently high at 71 percent in 1996 to 74 percent in 2005, ranging from 71 to 96 percent.[21]

IFF has experienced rapid growth in its lending activities in the last ten years. The Fund's loan portfolio has increased eight-fold from $9.7 million in 1996 to $72 million through 2005. IFF expects its loan portfolio to increase to $88 million by the end of 2007. IFF's charge-off rate (net charge-offs divided by loan portfolio outstanding) has remained very low, ranging from –0.05 percent to a 0.49 percent.

[21] The self-sufficiency ratio provides a measure of the extent to which an organization can cover its expenses through internally generated income (e.g., fee income, program income, interest income, etc.) or total earned income. The self-sufficiency ratio is calculated as earned income divided by operating expenses.

Exhibit 3: IFF Assets, Net Asset Ratios and other Financial Measures by Fiscal Year[22,23]

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Assets	27,885,836	29,602,442	37,273,758	39,478,456	46,628,736	49,704,267	53,455,855	53,173,338	72,755,446	90,103,880
Portfolio Outstanding	9,763,126	13,153,423	14,863,306	18,654,629	21,500,879	26,846,745	32,361,635	39,945,742	58,878,564	71,999,440
Self-sufficiency Rate	71%	87%	88%	75%	78%	96%	93%	88%	82%	74%
Net Asset Ratio	35%	40.0%	41%	41%	44%	42%	44%	46%	35%	38%
Charge-off rate	0.08%	(0.05)%	0.42%	0.49%	0.00%	0.00%	0.02%	0.00%	0.00%	0.17%

22 Net assets provide a measure of how much an organization's assets exceed its liabilities. Net assets are calculated as total assets minus total liabilities. The net asset ratio is calculated as net assets divided by total assets.

23 Accounts that an organization has written off because they will probably never be collectible are called charge offs, which appear as expenses on a balance sheet. Net charge offs are calculated as charge offs minus any assets recovered. Charge off rates are typically calculated as the total net charge offs divided by the average outstanding balance of all accounts for the time period in question.

Awards History

The Illinois Facilities Fund has received significant and consistent support from the CDFI Fund from its first year as a certified CDFI, with Financial Assistance (FA) awards totaling $9.1 million through 2006. The initial award of $900,000 in 1996 was followed up by three awards of $2,000,000 or more in 1998, 2000, and 2002 (see Exhibit 4). IFF received awards ranging from $375,000 to $750,000 in 2003, 2004 and 2006. Currently, CDFI grants constitute 80 percent of IFF's unrestricted net assets. By 1999, the CDFI Fund had invested $3.4 million in the IFF, representing a substantial expansion of IFF's equity capital and the largest since the original infusion of capital from the Chicago Community Trust.[24] In 2002, IFF also received a $10 million New Market Tax Credit Allocation from the CDFI Fund.

Exhibit 4: IFF CDFI Fund Awards by Year

Year	Type of Award	Award Amount
1996	FA	$900,000
1998	FA	$2,500,000
2000	FA	$2,000,000
2002	FA	$2,000,000
2003	FA	$750,000
2004	FA	$375,000
2006	FA	$585,000
Total		**$9,110,000**

Leverage of Non-CDFI Fund Monies

Investments in the Loan Fund

Aside from CDFI Fund awards, IFF has received financial support from most major Illinois banks. Exhibit 5 presents all major, cumulative investments in IFF's permanent capital and in the loan fund through fiscal year 2006. Aside from the CDFI Fund and the Chicago Community Trust, all major investors are commercial banks.

IFF initially had difficulty getting investments from Chicago's commercial banks. Its first bank investment came from Continental Bank in 1993, largely due to an executive in the bank's community development department showing interest in IFF's programs and shepherding the financing through the institution. The first commercial loan was made to IFF in the amount of $1 million. The first major infusion of capital to IFF came in 1995 when IFF and Continental Bank gathered together numerous banking officials at a brunch and made their pitch. Continental (now Bank of America) and five other major banks created IFF's Investor Consortium Program with a commitment to purchase up to $10 million in trust notes collateralized by IFF loans. Based on

[24] Equity capital is the amount of equity available for lending or investing. It is capital that comes from grants, donations, etc. for which the program is *not* liable to repay. This term is also referred to as "net assets dedicated to lending" by nonprofit loan funds, "net worth" by credit unions, and "equity" by venture capital funds.

interviews with IFF funders and Board members, the influence and reputation of one of IFF's Board members, in addition to the early support of Continental Bank, played an important role in bringing the other banks to the table. Since 1995, the Consortium has expanded to include a total of 12 local and national banks and has generated an additional $85 million in investment commitments.

Exhibit 5: Top Ten Investors in IFF's Loan Program, Ranked by Balance Outstanding End of Fiscal Year 2006

	Investor Name	Invested Amount
1	Northern Trust	$18,020,314
2	Harris Bank	$11,561,127
3	Midwest Bank and Trust	$6,423,703
4	LaSalle National Bank	$5,522,519
5	Cole Taylor Bank	$4,334,070
6	Charter One Bank	$3,395,000
7	Allstate Insurance/Bank	$3,200,000
8	First Bank	$2,864,915
9	MacArthur Foundation	$2,750,000
10	Circle of Service Foundation	$2,366,174

Grants for Operations and Program Support

The IFF has been very successful in obtaining operations and program support from a variety of sources. IFF was fortunate to receive start up funding through the Chicago Community Trust. In addition several foundations – MacArthur, McCormick Tribune, and Polk Brothers – stepped forward in the early stages of the organization to provide funding in the form of program-related-investments or PRIs. IFF also receives operations support from Federal, state, and local agencies. Exhibit 6 lists grant amounts from foundations and other sources that have provided operations and program support to IFF for fiscal years 2002 through 2006.

Exhibit 6: Top Ten Funders: Program and Operating Grants 2002-2006

Investor Name	Investor Type	Contributed Amount
Grand Victoria Foundation	Foundation	$1,636,969
MacArthur Foundation	Foundation	$1,480,000
Arie and Ida Crown Memorial	Foundation	$300,000
Polk Brothers Foundation	Foundation	$220,000
Bank One/JP Morgan Chase	Corporate	$190,000
Chicago Community Trust	Foundation	$169,367
IL Department of Human Services	State	$156,452
Joyce Foundation	Foundation	$125,000
Illinois Clean Energy Foundation	Foundation	$110,000
The Heron Foundation	Foundation	$100,000

In addition to the above operations and program support, IFF received in 2005 an $8 million grant from the U.S. Department of Education's Credit Enhancement for Charter School Facilities program. This grant, one of only five to be awarded that year nationwide, allows IFF to fund the construction of charter schools through tax-exempt bond financing.

CDFI Fund Program Impacts

Impacts on Communities

The accomplishments of the Illinois Facilities Fund are impressive. IFF's impacts on nonprofits and the low-income communities they serve are far reaching. Since its incorporation in 1988 through February 2007, IFF has made over 500 loans to 300 organizations, totaling $144 million in cumulative financing for capital purposes. Throughout its history, IFF's loans have impacted the lives of almost 1 million individuals and created over 17,000 new jobs.

Through February 2007, IFF reports the following outcomes:

- 520 loans were closed, totaling $144 million and averaging $361,620;
- 243 real estate projects were completed;
- $361 million in financing was leveraged;
- 6.5 million square feet of new or upgraded facilities were funded;
- 39 new or renovated health care facilities were funded serving 15,000 patients; and
- 153 new or renovated childcare facilities and 75 charter school classrooms were funded.

Impacts on Clients

This section examines the impacts of IFF's products and services on two of its borrowers. The brief studies below each describe a client organization, illustrating how IFF's loans impacted the organization and its constituents.

Noble Network of Charter Schools

The Noble Network of Charter Schools was formed in 2005 as a nonprofit charter management organization. The organization was created to replicate the success of the Noble Street Charter High School, which opened its doors in the fall of 1999 and is widely recognized as one of the best public high schools in Chicago. To date, two charter schools have been opened by the organization and five more are planned for opening by 2010. The Noble Network is part of the City of Chicago's Renaissance 2010 program that calls for the creation of 100 small charter schools.

The Noble Network first worked with the Illinois Facilities Fund during the acquisition of the facility for its first charter school. IFF assisted the Network with both financing and technical assistance. IFF offered the Network a 35-year lease financed with a tax-exempt bond through IFF's U.S. Department of Education charter school grant. IFF's real estate advisory services department also assisted the Network by helping to choose a location, by leading lease negotiations, and by facilitating the bidding process for the contractor and architect.

Noble Network staff report that the creation of its first charter school, as well as the planning for subsequent schools, may not have been possible without the financing and technical expertise of the IFF. The Network first approached its own bank for financing, but the bank was not able to provide the funding as quickly as it was needed. A conventional bank also could not have provided the critical technical assistance nor could it have matched the attractive lending terms of the IFF. Without IFF's assistance, it is likely that the Noble Network would not be on target to meet its goal of opening seven new schools by 2010.

Community Health and Emergency Services

Community Health and Emergency Services (CHES) is a Federally Qualified Heath Center (FQHC) established in 1979 and certified as a FQHC in 1991. The organization operates 11 healthcare facilities throughout a six-county region in Illinois, including medical, dental and surgical sites. CHES' services are available to anyone but are mostly used by low- and very low-income patients without health insurance. These health services are generally provided for free or on a sliding scale based on income.

CHES first received funding from IFF in 1999 for the acquisition and rehabilitation of a small healthcare facility. Previous to its relationship with the IFF, CHES financed its facility improvements with lines of credit from its local bank. However, the banks could not match IFF's favorable loan terms or operate as quickly as the organization needed. In order to acquire new spaces for health centers as they become available, CHES often needs to work quickly to secure financing before the land or facility is acquired by for-profit developers, who tend to have easier access to financing.

Since 1999, CHES has received three more IFF loans. CHES staff reported several benefits of working with IFF, including an extremely user-friendly loan process, especially for organizations with little or no development experience. As a seasoned IFF borrower, CHES now follows a very streamlined loan process, which allows them to move quickly on possible acquisition sites.

Conclusion

Did the Fund awards allow IFF to (a) expand its community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

CDFI Fund awards have enabled IFF to create new loan programs and to serve new and underserved markets. For example, the 1998 CDFI award was targeted for two new loan programs: the Community Health Care Capital Fund and the Community Asset Builder. The Community Health Care Capital Fund targeted Federally qualified health centers for facilities funding. As a result, more than 30 health care facilities were constructed with IFF financing. The Community Asset Builder program targeted organizations seeking to expand their development capacity. Under this program, organizations could include the cost of a project manager in the IFF loan and received training and technical assistance on raising additional funds for the project.

With the support of recent CDFI Fund awards, IFF is targeting its marketing efforts to attract more borrowers from rural parts of Illinois. Because of its 2006 FA Award, IFF was able to expand its service area to include four neighboring states: Indiana, Iowa, Missouri, and Wisconsin. Prior to

IFF's outreach, nonprofits in these areas with capital needs were underserved and it is unlikely IFF would have been able to increase its target region without CDFI funding.

Did the Fund awards help IFF to increase its community development outcomes?

CDFI Fund awards have increased IFF's community development outcomes. One can estimate these effects based on the over $9 million in equity provided by the CDFI Fund. IFF generally loans at a 4:1 equity ratio, which means that CDFI Fund awards directly enabled approximately $36 million in loans to nonprofits serving disadvantaged communities. IFF reports that its cumulative lending of $140 million created approximately 17,000 jobs and created or rehabbed facilities serving almost a million clients. Based on the above loan estimates, awards from the CDFI Fund have served almost 250,000 low-income persons throughout Illinois (a quarter of the overall population IFF has served).

The funders and clients interviewed for this case study also reported that outside of IFF, there are few options for Illinois nonprofits to finance their capital needs. This is especially true for organizations without significant assets, a common occurrence in the nonprofit human services industry. With the CDFI Fund's significant support, IFF provides a key source of capital financing to a wide range of Illinois nonprofits.

Did the Fund awards help strengthen the financial health of IFF as measured by key financial ratios?

Although IFF has been fortunate to receive significant financing from Illinois banks and foundations, grants provided by the CDFI Fund have been crucial in supporting IFF's business model. The $9.1 million in CDFI awards make up 80 percent of IFF's unrestricted net assets and have helped IFF raise debt for its loan program from its Investor Consortium. The Consortium began prior to any CDFI awards, however, between 2004 and 2006 the Consortium increased its loan commitment to IFF by $85 million. It is not likely that IFF would have been able to take on this additional debt without the financial stability that the CDFI capital has provided.

The CDFI Fund awards had the most significant impact on the financial health of the IFF in its first few years of its operation as a CDFI. The first two CDFI Fund awards – totaling $3.4 million – were the largest infusion of equity through 1999 and essentially doubled the amount of IFF's lending capacity, significantly strengthening its balance sheet.

Did the FA awards help IFF to leverage other public and private non-CDFI Fund monies?

Historically, the IFF's project partners leverage IFF loans at a more than 2:1 ratio. Therefore, based on the above assumptions that CDFI awards have resulted in approximately $36 million in lending to nonprofits, the CDFI awards are estimated to have leveraged at least $70 million in additional financing for IFF's client organizations.

Did the TA awards help IFF to (a) increase its organizational capacity, (b) improve its financial health, (c) increase its operational efficiency, (d) improve its portfolio quality, and/or (e) improve its community development performance?

Not applicable – IFF did not receive any TA awards from the Fund.

Case Study: Midwest Minnesota CDC

Summary

Midwest Minnesota Community Development Corporation (MMCDC) is a large and complex nonprofit organization and community development financial institution (CDFI) located in Detroit Lakes in rural Minnesota. It is a loan fund that provides a variety of economic, housing and community development services. A well-established organization that dominates the local community development landscape, MMCDC has a handful of subsidiaries and affiliates and dozens of limited partnerships. The organization's services include commercial lending, home mortgage lending, housing development, housing construction, homeownership education, and economic development consulting, all with the goal of improving the lives of low-income populations and encouraging business development in rural areas. MMCDC's commercial and home mortgage lending services cover vast geographic areas, including all of Minnesota and small parts of Wisconsin and North and South Dakota.

Between 1999 and 2004, MMCDC received $2.35 million in Financial Assistance (FA) in three awards from the CDFI Fund. These awards supported the development and construction of affordable single-family homes, mortgage loans and gap financing to low- and moderate-income borrowers, and commercial loans for business expansion. While the FA awards have represented a modest portion of MMCDC's overall funding, they have significantly expanded the organization's lending capacity, building up its loan portfolio and increasing the number of clients the organization has been able to serve. Since the inception of MMCDC's home mortgage lending program in 1997, more than 2,000 low- and moderate-income rural residents have received home mortgage loans with competitive terms, leveraging their limited personal resources and allowing them to become homeowners. MMCDC's commercial loans have created almost 3,000 new jobs and maintained an additional 13,500 jobs, strengthening the economies of many small communities. In addition, separate CDFI Fund awards to MMCDC's subsidiaries have provided much-needed banking and development services to residents of the local White Earth Reservation, including facilities and infrastructure improvements that have improved lives and laid the groundwork for future development.

This case study provides a detailed description of MMCDC's products and services and explores how the receipt of CDFI Fund awards has affected the organization's ability to serve its target population and carry out its mission. The case study is based on a site visit to MMCDC's headquarters in November 2006 and interviews with key staff and stakeholders. It also draws upon data and reports provided by MMCDC and MMCDC's applications for CDFI Fund awards. The case study is organized into four main sections: Organization Background; Products and Services; Financial Information; and CDFI Fund Program Impacts. The case study concludes by answering a series of specific questions about how the receipt of CDFI Fund awards has affected the organization.

Organization Background

History

Two local community action programs joined forces in 1971 to create MMCDC, one of the first Community Development Corporations in the nation. MMCDC has focused on community and economic development since its incorporation, at which time it served seven counties in Northwestern Minnesota. From 1971 through 1987, MMCDC made mostly equity investments in small businesses. Commercial lending began in 1979, and home mortgage lending started much later in 1997. Since then, the organization has grown dramatically, building major homeownership and business expansion lending operations for rural clients. MMCDC staff explained that this expansion grew out of a desire to "fill in the gaps" in the community development services they encountered. Because there were few other providers, MMCDC filled these gaps themselves.

Location

MMCDC is located in Detroit Lakes, Minnesota, a small town in the rural northwestern part of the state, 45 miles east of Fargo, North Dakota and 225 miles northwest of Minneapolis/St. Paul. The biggest town in the surrounding lake country, Detroit Lakes currently has a population of just over 8,000. The mayor estimated that an additional 7,000 people live in rural areas within six miles of the city. There are more than 400 lakes within 25 miles of the city, attracting thousands of tourists during the summer months.

Detroit Lakes is located about 10 miles south of the White Earth Reservation, where many members of the White Earth Band of Ojibwe (Chippewa, or Anishinaabe) live. The reservation is large, covering about 1,300 square miles of land and encompassing five incorporated towns and five unincorporated villages. The reservation population was about 9,200 in 2000 according to the Census. Local sources report that between 12,000 and 14,000 people currently live within reservation boundaries, about half of whom are registered members of the tribe. Major efforts by a handful of organizations, including two MMCDC subsidiaries, have started to make impacts in recent years. Although the current tribal leadership is strong, White Earth remains an area with significant and complex social and economic needs, some of which affect Detroit Lakes.

Midwest Minnesota CDC (MMCDC)

- Incorporated in 1971
- Nonprofit loan fund
- Located in Detroit Lakes, MN
- Provides business expansion loans and home mortgage loans to businesses and individuals in rural communities in MN, with some clients in ND, SD and WI
- Provides housing development and construction and economic development services
- 16.6 FTE employees work in one office
- Total assets in 2006: $53.6 million (including subsidiaries)
- Key outcomes: Through October 2006, MMCDC made over 2,000 home mortgage loans to low- and moderate-income (LMI) borrowers in rural MN and provided more than 300 downpayment assistance loans. Through March 2005, MMCDC built 426 homes for LMI buyers and made 509 business loans, which created 2,939 new jobs and maintained 13,525 jobs.

Clients and Service Area

MMCDC's mission is to improve the lives of low-income populations and to develop businesses in rural areas. Although MMCDC focuses on a seven-county area in Northwestern Minnesota, which includes rural areas, small towns and Native American reservations, its commercial and homeownership lending is state-wide and even includes some clients in Wisconsin and North and South Dakota. Economic and social needs are particularly acute among tribal members on the White Earth Reservation, where there is a 25 percent unemployment rate and per capita income of about $5,000. While the Shooting Star Casino in Mahnomen generates significant income for the tribe, much of the Native population is affected either directly or indirectly by geographic isolation, severe poverty, unemployment, substance abuse, and poor health. MMCDC has also recently started providing services for undocumented populations, supporting Latino migrant laborers who work in a factory in Blackduck. MMCDC's President noted that the rural areas the company serves encompass diverse populations, each with its own challenges and needs. In fiscal year 2005, MMCDC's clients were 97 percent rural, 33 percent female, and 17 percent racial and ethnic minorities.

Organizational Structure

MMCDC has three major divisions, including home mortgage lending, commercial lending, and real estate development. The organization currently has three subsidiaries and two affiliates. MMCDC provides these subsidiaries and affiliates with management, accounting and development support, thereby allowing them to benefit significantly from the organization's extensive financing experience, relationships with funders and service providers, and ability to provide services to various constituencies. MMCDC and its subsidiaries share staff, and employees constantly share information, ideas, tools and approaches. MMCDC staff explained that good ideas become projects and then programs, and that the best programs become subsidiaries. While the subsidiaries are separate organizations in terms of their financial statements, they are fundamentally aligned with MMCDC's work and thrive on MMCDC's expertise and shared resources. The expansion into specialized operations via its subsidiaries has also allowed MMCDC to economize by vertically integrating its services. For example, MMCDC and its subsidiaries and affiliates develop homes, build homes, provide homeownership counseling, and provide home mortgage financing. While all of these services have not been combined in any single project, the ability to combine two or more aspects of complex development projects has made their operations more efficient.

MMCDC's three subsidiaries are:

- CDC Bankshares / Community Development Bank on the White Earth Reservation (a certified CDFI in Ogema, MN),
- White Earth Investment Initiative, a reservation-based CDC (a certified CDFI in Ogema, MN), and
- Partnership to Supply Affordable Housing, a housing and commercial real estate management company (Detroit Lakes, MN).

MMCDC has also created two affiliate organizations:

- Minnesota's CDC, a multi-bank nonprofit comprised of small rural banks along with MMCDC that pool capital to make large loans for development projects, and
- Northwest Minnesota Housing Cooperative, a housing development and construction company (Thief River Falls, MN).

Until recently, MMCDC had two additional subsidiaries: Teamworks, Inc., a training center focused on training machinists and machine operators located in Park Rapids, MN and Holmes Center, Inc., a company that manages the new community and cultural center in Detroit Lakes. For strategic reasons MMCDC divested itself of these two subsidiaries in 2006. The rationale for the divestitures was to focus on key activities that are more closely related to its mission and capabilities.

In addition to its three subsidiaries, MMCDC has approximately 20 limited partnerships that hold assets primarily related to Low Income Housing Tax Credits (LIHTC) and New Markets Tax Credits (NMTC). As of November 2006, MMCDC assets were roughly $30 million, subsidiary assets were roughly $25 million and the NMTC programs had another $35 million in assets.

Staffing

MMCDC currently has 16 FTE employees. The President of the organization has successfully recruited and retained a highly experienced and professional team from the fields of banking, business development, commercial lending, and home mortgage lending. As a result, MMCDC has strong expertise in these areas and knowledge of industry standards and business practices from a for-profit perspective. The staff are roughly divided up as follows: five FTE in home mortgage lending, three FTE in commercial lending, three FTE in real estate development and management, and five FTE in management and administration.

Products and Services

MMCDC provides a spectrum of economic development services including capital, training, and technical assistance via three major divisions: home mortgage lending, commercial lending, and real estate management and development. The organization also provides development consulting, homebuyer education, and other supportive services that complement its main programs.

Home Mortgage Lending

Beginning in 1997, MMCDC staff developed an innovative remote mortgage origination business in which they work behind the scenes processing and underwriting loans and completing all necessary paperwork for small, isolated banks throughout the state of Minnesota and in parts of North and South Dakota and Wisconsin that are too small to have a home mortgage lending expertise. The vast majority (75 percent) of borrowers are first-time homebuyers. MMCDC originates about $25 million annually in home mortgages for low- and moderate-income borrowers, which are sold on the

secondary market.[25] Approximately $2.5 million of these home mortgage loans are held in portfolio. MMCDC currently partners with about 80 different banks across the state and in North Dakota to provide home mortgage lending services.

MMCDC uses below-market interest rate loan products, including USDA Rural Development Guaranteed, Participation, and 502 loan products; Minnesota Housing Finance Agency (MHFA) MMP/MCPP and CASA products; and the HUD Section 184 product. The organization also makes conventional loans. When funding was available, MMCDC provided some deferred, downpayment assistance loans. MHFA provides some downpayment assistance to qualifying borrowers.

Business Lending

MMCDC has been making loans to small businesses for start-ups, expansions, acquisitions, equipment purchases, and property purchases since 1979. To be eligible for these loans, businesses need to show that the loans will contribute to job creation or maintenance, economic development, and improvement for workers and local residents. MMCDC does not intend to provide "loans of last resort," but seeks to assist businesses that may have a hard time accessing capital elsewhere. MMCDC invests across industries and in a wide variety of enterprises, including services, manufacturing, retail and agri-business.

MMCDC currently makes about $2 million in business loans annually, all of which are held in portfolio. As of November 2006, MMCDC's commercial loan portfolio was just under $15 million. In fiscal 2005, MMCDC made loans to 73 businesses. Loans generally range from $2,000 to $2,000,000. While MMCDC does not usually make loans for the development of community facilities, it invested $10 million in the construction of the Community and Cultural Center in Detroit Lakes, which includes an aquatic and fitness center, learning center, senior center, and theater. In addition, MMCDC has implemented $115 million in tax credits from the CDFI Fund's NMTC program, which has dramatically expanded its commercial lending business.

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[25] MMCDC staff explained that since the inception of their loan program, they have almost exclusively used lending products that can be sold on the secondary market. As noted above, these products include both conventional loan products, and several subsidized loan products from the Minnesota Housing Finance Agency (MHFA) and Rural Development. MMCDC currently has three secondary market purchasers: MHFA, US Bank and Chase Manhattan Bank. When MMCDC lending staff were asked why they thought other CDFIs were not selling more home mortgage loans on the secondary market, they were not sure, as this has always been a natural fit for MMCDC. They noted that smaller CDFIs may be deterred from selling on the secondary market because many secondary market purchasers (1) have an lengthy approval process before they will purchase loans from an organization, (2) require that the selling organization have a minimum net-worth, and (3) require that the selling organization sell them a minimum volume per year.

Financial Information and CDFI Fund Awards

Financial Information

MMCDC's assets, including all subsidiaries, have grown dramatically over the past two decades: from $2.75 million in 1984 to $53.6 million in 2006.[26] As of the fiscal year ending on March 31, 2006, MMCDC's total consolidated assets were $53.6 million, $24.8 million of which belonged to its subsidiaries (Exhibit 1). Consolidated net assets were $16.8 million for the same fiscal year (2006), representing 31 percent of total assets.[27] Net assets as a percentage of total assets have been consistently strong, ranging from 30 to 35 percent during fiscal years 2003, 2004 and 2005. During the same three fiscal years, operating liquidity ranged from 5.3 to 9.3 percent, net revenue was always positive (ranging from $800,000 to $1,900,000), capital liquidity was strong (ranging from 3.8 to 11.3 percent), and portfolio at risk was minimal (ranging from 0.1 to 0.5 percent).

As of the end of fiscal year 2005, MMCDC had 605 loans outstanding across all sectors, totaling $23.6 million, and 22 equity investments outstanding, totaling $3.6 million. Across all loans and sectors, the weighted average interest rate that year was 5.82 percent, and the weighted average term was 133 months. MMCDC closed 614 home mortgage, consumer and business loans in fiscal 2005, for a total of $34.3 million lent. The net loan loss ratio was 0.1 percent and the cumulative loss ratio was 0.6 percent. The ratio of equity to total capital was 12 percent and the self-sufficiency ratio was 85.6 percent at the end of fiscal 2005.[28,29] From its inception in 1971 through March 2005, MMCDC has lent a total of $181 million in cumulative financing, including loans, equity investments, loans purchased, and loan guarantees. Over the same period, total cumulative losses were $1.1 million.

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[26] Asset calculations for years before 2000 do not include eliminations.

[27] Net assets provide a measure of how much an organization's assets exceed its liabilities. Net assets are calculated as total assets minus total liabilities. The net asset ratio is calculated as net assets divided by total assets.

[28] Equity capital is the amount of equity available for lending or investing. It is capital that comes from grants, donations, etc. for which the program is *not* liable to repay. This term is also referred to as "net assets dedicated to lending" by nonprofit loan funds, "net worth" by credit unions and "equity by venture capital funds.

[29] The self-sufficiency ratio provides a measure of the extent to which an organization can cover its expenses through internally generated income (e.g., fee income, program income, interest income, etc.) or total earned income. The self-sufficiency ratio is calculated as earned income divided by operating expenses.

Exhibit 1: MMCDC Assets and Asset Ratios for Selected Fiscal Years between 1985 and 2006[30]

	FYE 3/31/1985	FYE 3/31/1997	FYE 3/31/2000	FYE 3/31/2003	FYE 3/31/2006
Total Assets (Consolidated)	$7,119,295	$12,265,308	$17,316,756	$35,894,994	$53,614,869
Total Assets (Subsidiaries Only)	NA	NA	$2,487,745	$15,462,174	$24,791,920
% Total Assets in Subsidiaries	NA	NA	14%	43%	46%
Net Assets (Consolidated)	$1,379,375	$7,098,633	$10,214,834	$12,158,393	$16,821,785
Net Assets (Subsidiaries Only)	NA	NA	$1,549,652	$710,123	$2,170,137
% Net Assets in Subsidiaries	NA	NA	15%	6%	13%
Ratio of Net to Total Assets (Consolidated)	NA	NA	59%	34%	31%
Ratio of Net to Total Assets (Subsidiaries Only)	NA	NA	62%	5%	9%

Awards History

MMCDC received $2.35 million total in Financial Assistance (FA) and $115 million in New Markets Tax Credit (NMTC) awards from the CDFI Fund between 1999 and 2006 (Exhibit 2). The organization has never applied for any Technical Assistance awards. The $2.35 million in FA awards has supported a variety of activities across the years, including constructing affordable single-family homes, providing mortgage loans to low- and moderate-income borrowers (some of which are serviced in-house and others which are sold on the secondary market), providing business loans, and providing downpayment assistance loans for low-income borrowers. The awards were also used to maintain MMCDC's overall financial health and meet targets for positive annual net revenue, net assets as a percentage of total assets, liquidity ratios, and portfolio at risk.

[30] Asset calculations for years before 2000 do not include eliminations.

Exhibit 2: CDFI Fund Awards to MMCDC

Year Received	Award Type	Award Amount
1999	Financial Assistance	$600,000 ($300K grant, $300K loan)
2002	Financial Assistance	$1,000,000 (grant)
2004	Financial Assistance	$750,000 (grant)
2004	New Markets Tax Credits	$35,000,000
2006	New Markets Tax Credits	$80,000,000

Leverage of Non-CDFI Fund Monies

MMCDC receives funding from public, private, and foundation sources. In addition to support from the Department of the Treasury's CDFI fund, MMCDC receives significant contributions from the Departments of Health and Human Services (HHS), Agriculture (USDA), and Housing and Urban Development (HUD). The HHS grants are from the Office of Community Services (OCS) and support job creation via the influx of capital to underserved areas. The USDA Rural Development program has awarded MMCDC various funds that the organization uses to provide loans, loan guarantees, and technical assistance to small businesses and community development organizations, including the Rural Development Loan Fund (RDLF) (now the Intermediary Relending Program (IRP)), Rural Economic Development Loan and Grant (REDLG), Rural Business Enterprise Grant (RBEG), and the Rural Business Opportunity Grant (RBOG).

Most of MMCDC's non-Federal income sources are program income (origination fees on home loans, interest income, service income, etc.) and matching grants from traditional financial institutions. MMCDC also receives support from foundations, including the Calvert Foundation, Catholic Health Initiatives, and the Northwest Area Foundation, which funds and supports community and economic development programs in Minnesota, Iowa, North and South Dakota, Montana, Idaho, Washington and Oregon. MMCDC's subsidiaries have received grants from the Bush, Otto Bremer, and McKnight Foundations.

CDFI Fund Program Impacts

Impacts on the Organization

MMCDC's President reported that CDFI Fund awards have helped the organization to meet its goals and to be financially healthy, allowing staff to pursue expanded goals and to serve more people and communities in need. Without the FA and NMTC awards, MMCDC's asset base would have been at least $35 million smaller, which would have significantly reduced lending, as MMCDC capital and assets are leveraged between three and ten-fold for various lines of business.

Besides sparking asset growth, the CDFI Fund awards have increased MMCDC's client base and expanded its network of outside funders, including the Northwest Area Foundation, Calvert Foundation, Catholic Health Initiatives, and the National Community Capital Association (now known as the Opportunity Finance Network). Working with the CDFI Fund caused MMCDC to get

involved in the NMTC program, and the NMTC awards have fueled significant growth. MMCDC has ideas for several new programs that can be funded by fee-income generated by the NMTC awards, including a youth-focused IDA program on the White Earth Reservation. More generally, this new market has allowed MMCDC to build and strengthen program structures and procedures and relationships with clients and program partners. Overall, the Fund's programs have been an excellent opportunity for growth and improvement.

Years of interaction with the CDFI Fund, its staff and its programs have also impacted MMCDC's organizational approach and strategy. According to senior staff, the Fund has raised the organization's standards in terms of strategic planning, product development, and assessing its markets and competitors. The Fund has also pushed MMCDC to focus on benchmarks and impacts, which has improved their work and made the organization more attractive to other funders. MMCDC is upgrading its program management software to include tools for performance measurement for its community development, equity, and lending businesses.

CDFI Fund awards have also helped MMCDC to be a fiscally sound and stable organization in terms of achieving positive net revenue, strong net assets as a percentage of total assets, good operating and capital liquidity, and minimal portfolio at risk (see the Financial Information section for details).

Impacts on Clients and Communities

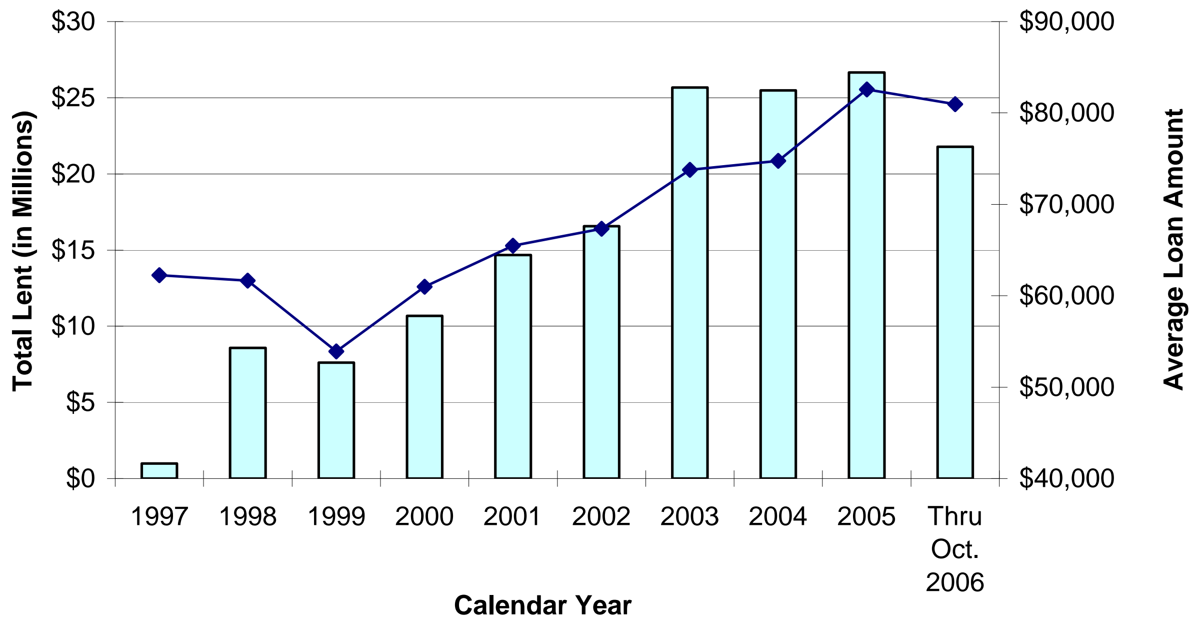
The CDFI Fund FA awards directly enabled MMCDC to provide a variety of products and services benefiting individuals and communities in rural areas.

Home Mortgage Lending

Since the inception of its home mortgage lending program in 1997 through October 2006, MMCDC has made over 2,000 home mortgage loans to low- and moderate-income borrowers living in rural areas throughout Minnesota. Since 2003, MMCDC has originated more than $25 million in home mortgage loans to more than 300 households per year (Exhibit 3).

MMCDC uses subsidized loan products whenever possible, allowing purchasers with limited savings and with low and moderate incomes to buy a home. Because loan terms are reasonable and interest rates are fixed, purchasers are able to make their payments and stay in their homes. MMCDC's work has started to open up the field of low- and moderate-income lending for larger banks, which will be beneficial to future purchasers. MMCDC provides personalized service and attention to detail, enabling their loan officers to help and educate borrowers who were about to embark on bad deals with other lenders.

Exhibit 3: MMCDC Home Mortgage Lending 1997 - 2006



MMCDC also provided more than 300 downpayment assistance loans (zero percent interest deferred loans ranging from $1,000 to $35,000) to low-income borrowers during fiscal years 2003, 2004, and 2005.

Housing Construction

Through March 2005, MMCDC has built 426 homes, most of which are single-family homes for low- and moderate-income buyers. In some cases, the organization has built entire neighborhoods, opening up the market in high-end resort areas to members of the workforce with modest resources.

Commercial Lending

Since the inception of commercial lending in 1979 through March 2005, MMCDC has made 509 business loans, which have created 2,939 new full-time jobs and maintained 13,525 full-time jobs. MMCDC's loans provide business with access to capital that they might otherwise not have otherwise. The loans have allowed small businesses to purchase equipment, acquire property, expand, and acquire other businesses. In addition, newer businesses have used the loans in part to build a payment history with MMCDC, enabling them to become bankable with traditional institutions in the future. MMCDC's loans also leverage other investment, including subordinated debt and loans from traditional banks. Besides creating jobs, the loans increase sales and generate sales tax revenues for the state.

In addition to providing loans, MMCDC connects business owners to various services by referring them to small business development centers and encouraging them to use tax, accounting, development, and technology professionals, which helps them to become more efficient, strategic and successful. One of MMCDC's most successful clients is Team Industries, which owned a plant in

Cambridge, Minnesota. After receiving multiple loans from MMCDC, the business has expanded ten-fold and currently operates six plants in the region.

Assisting Underserved Communities

At the request of the Anderson Fabrics Factory in Blackduck, MN, MMCDC staff helped about 35 undocumented factory workers, mostly from Mexico, to obtain rental housing. Noting that these workers had a number of needs, an MMCDC caseworker helped half of them complete applications for Individual Taxpayer Identification Numbers (ITIN), a nine-digit tax identification number for people who do not have or do not qualify for a Social Security Number. The receipt of the ITINs enabled these workers to open bank accounts. The MMCDC caseworker is currently providing homebuyer education to her Blackduck workers, and one has begun the transition to a lease-to-own program. In addition, the clients are now aware of and connected to other services. According to the caseworker, the Blackduck clients now understand the basics of the American financial system and are empowered as a result. They are focused on budgeting and asset building and participate in a monthly support group to facilitate their integration into the community.

The White Earth Investment Initiative (WEII), an MMCDC subsidiary and separate CDFI, has provided significant investment, development and support services on the White Earth Reservation.

- One MMCDC caseworker provides homebuyer education to residents of the White Earth Reservation. Thus far, 80 White Earth households have completed the eight-hour Pathways Home program, and 16 have purchased homes.
- WEII has completed several beautification projects on the reservation, including planting trees, installing new signs, upgrading public landscaping, and removing trash and abandoned cars from public areas.
- WEII also took over a challenged AARP tax site in Mahnomen, one of the towns on the reservation. WEII now runs a free tax service out of that office. For tax year 2004, program staff helped clients receive $50,000 in Earned Income Tax Credit (EITC) refunds, and by tax year 2005 this was up to $200,000. The goal for tax year 2006 is to achieve $300,000 in EITC refunds for reservation residents.

Impacts on Borrowers

This section examines the impacts of MMCDC's products and services on two of its borrowers. The brief studies below each describe a client organization, illustrating how MMCDC's loans impacted the organization and its constituents.

Kujawa Fiberglass Repair

Since 1994, Detroit Lakes resident Paul Kujawa did fiberglass repair in his garage part-time, fixing boats and racecars for friends and friends of friends who heard about his great work. In 2004, he and his fiancée decided to try to make a career out of his pastime and developed a business plan for a small fiberglass repair business. MMCDC provided advice, support, and a $15,000 loan in 2004 for the purchase of equipment and renovations to his garage so he could handle bigger jobs. Today Paul is the proud owner of Kujawa Fiberglass Repair and is already considering moving to a bigger workshop. His reputation for high-quality service has attracted larger clients, including boat

dealerships from surrounding communities and insurance companies. Paul's services are fully booked at least three months in advance, and he is considering hiring an assistant. Without the start-up loan from MMCDC and the encouragement of MMCDC's director of commercial lending, Paul said that he would still be doing fiberglass work as a hobby, and nothing more. Today Kujawa Fiberglass Repair supports Paul's family and provides high-quality services and fast-turnaround to boat owners and dealers in the area.

Tuffy's Pet Foods, Barrel O'Fun Snack Foods and Kenny's Candies
The owners of the Tuffy's Pet Foods factory, a large employer in Perham, MN, announced that they were going to close the plant in 2001 after 40 years of operations, leaving 120 employees without a job. KLN enterprises, a local company that owns a factory which produces Barrel O'Fun Snack Foods and Kenny's Candies, was approached by MMCDC with the idea of acquiring Tuffy's Pet Foods in order to save these jobs. MMCDC provided critical financing in a short timeframe that enabled KLN to acquire the Tuffy's Pet Foods factory and put it back on a path to profitability. After the acquisition, KLN retained 40 of Tuffy's employees, and as of November 2006, Tuffy's had 116 employees. KLN's goal is that by the end of 2007, Tuffy's will have more than 120 employees. Without MMCDC's intervention, Tuffy's would have closed and the 120 jobs would have been lost immediately, devastating the local community and economy.

Both Barrel O'Fun and Kenny's Candies have also benefited from direct investments by MMCDC, including loans for equipment purchases and significant technology upgrades which have allowed KLN to expand both businesses. Between 2004 and 2006, Barrel O'Fun expanded from 343 to 427 employees, and Kenny's Candies expanded from 91 to 98 employees. KLN was also able to increase the size of the factory by 100,000 square feet with a Rural Development guaranteed loan from Minnesota's CDC, the consortium of banks that MMCDC created for making large business loans.

KLN's Chief Financial Officer (CFO) reported that beyond providing access to capital through direct investments and Minnesota's CDC, MMCDC has helped KLN by pointing the company to additional funding sources. The CFO continued that KLN simply cannot get these kinds of loans or such quality support and advice from other sources – there are no other organizations with access to financing like MMCDC. He explained that larger banks don't consider factories in rural Minnesota to be acceptable collateral. The CFO estimates that MMCDC loans and investments have allowed KLN to grow two to three times faster than it could have without such support. In two years, the company has expanded from 559 to 663 employees, producing an annual payroll of more than $20 million, which has a significant impact on the local economy.

Conclusion

Did the Fund awards allow MMCDC to (a) expand its community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

The FA awards have allowed MMCDC to pursue expanded goals and to serve more people and communities in need. According to the company's President, MMCDC's asset base would have been at least $35 million smaller without the FA and NMTC awards. This would have significantly reduced lending, as MMCDC's capital and assets are leveraged between three and ten times for various lines of business. The FA awards therefore played a significant role in MMCDC's ability to

expand lending and serve more people, businesses, and communities. The CDFI Fund awards also enabled MMCDC to serve its target population of low-income people and businesses in rural communities across a wider geographic area. Because MMCDC is 35 years old, most of its products and services were fairly developed at the time of the CDFI Fund awards. As a result, the Fund's awards did not have a significant impact on the creation of new products and services.

Did the Fund awards help MMCDC to increase its community development outcomes?

The CDFI Fund awards allowed MMCDC to increase both its home mortgage lending and its small business lending (see Impacts sections for details). In addition, the Fund's focus on target markets caused MMCDC to sharpen its thinking about client populations, enabling and inspiring staff to develop an approach in which they develop standard tools and tailor them to particular populations. MMCDC staff reported that this kind of approach has made them more prepared to serve new populations and more effective in serving those populations. In addition, the NMTC awards have enabled the organization to establish new relationships with national funders and other organizations.

Did the Fund awards help strengthen the financial health of MMCDC as measured by key financial ratios?

Fund awards helped MMCDC to be a fiscally sound and stable organization in terms of achieving positive net revenue, strong net assets as a percentage of total assets, good operating and capital liquidity, and minimal portfolio at risk (see the Financial Information section for details). More generally, the award application process helped the organization to sharpen its business strategy, clearly articulating its products and services, clients and markets, and competitors. MMCDC's President suggested that it is a good idea to ask nonprofit organizations to articulate each of these components, because they often do not do so. Finally, NMTC awards have provided additional fee income to support the organization's goals.

Did the FA awards help MMCDC to leverage other public and private non-CDFI Fund monies?

CDFI Fund certification and FA awards helped MMCDC to leverage other non-CDFI Funds. Senior staff at MMCDC report that the certification and awards encouraged several organizations to invest in MMCDC, including the Calvert Foundation, Catholic Health Initiatives, and the National Community Capital Association, now known as the Opportunity Finance Network. In addition, MMCDC's certification and track record was instrumental in allowing them to secure funding from the Northwest Area Foundation, which issued an RFP to fund certified CDFIs. Overall, MMCDC's President estimates that the $2.35 million in FA awards leveraged at least another million dollars to hold home mortgage loans in portfolio.

Did the TA awards help MMCDC to (a) increase its organizational capacity, (b) improve its financial health, (c) increase its operational efficiency, (d) improve its portfolio quality, and/or (e) improve its community development performance?

Not applicable – MMCDC did not receive any TA awards from the Fund.

Case Study: North Carolina Minority Support Center

Summary

This case study describes the North Carolina Minority Support Center ("the Support Center") in Durham, North Carolina and the impact CDFI Fund awards have had on its activities. The Support Center is a financial intermediary that provides capital and technical assistance to a network of community development credit unions (CDCUs) that have historically served the state's rural, low-income, African-American communities. The Support Center was founded in 1991 in response to concerns about the financial viability of the state's small CDCUs. Most of these organizations were created during the era of segregation to meet the saving and borrowing needs of rural African-Americans. But the number of CDCUs declined during the 1980s due to changing economic circumstances and increased regulatory pressure. Drawing upon financial support from the state, foundations, and private banks, the Support Center provided technical assistance, capital investments, and grants to these CDCUs.

Over its first decade, the Support Center focused on stabilizing and expanding the CDCU network. In 2000, it received $2 million in financial assistance from the CDFI Fund to expand the CDCUs' mortgage lending activity. These organizations needed more capacity to originate mortgages in order to counteract the growth of subprime lending in the state's minority communities. The Support Center also received a technical assistance grant of $30,000 for technological enhancements needed to provide technical assistance to CDCUs remotely. In 2004, the Support Center received a second financial assistance award of $500,000 to provide further support for CDCU mortgage lending activities.

Since 2000, North Carolina's small CDCUs have been under increasing pressure due to a combination economic hardship among its members, greater competition and complexity in the financial services industry, and increased regulatory scrutiny. As regulators began to impose restrictions on CDCUs in precarious financial conditions, the Support Center developed and implemented a strategy to merge these small organizations so to preserve these institutions in their communities. Between 2003 and 2006, eight CDCUs were merged into a new entity, Generations Community Credit Union, with a charter to serve members throughout the state through 10 branch locations. With the help of Support Center staff, Generations Community Credit Union has achieved financial stability and is beginning to offer an enhanced range of financial services. The Support Center has also helped the Latino Community Credit Union to absorb two other financially troubled CDCUs and expand to meet the needs of the state's rapidly growing immigrant population. In short, the Support Center has played a critically important role in preserving and strengthening North Carolina's CDCUs during a challenging period.

While the CDFI Fund's awards indirectly contributed to the preservation of North Carolina's CDCUs by providing assistance to the Support Center, the main impact of the awards has been to support the expansion of mortgage lending by these CDCUs. From 1999 (prior to the first award) to 2006, the mortgage loans held by the CDCUs increased from $12 million to $31 million. The Support Center played an important role in developing the mortgage lending capabilities of the network, both through

capital investments and through technical support. The growth in mortgage lending is all the more remarkable considering the upheaval experienced by this network over the last five years. With the Support Center's help, the CDCUs are now more financially secure and better positioned to expand their mortgage lending activities to meet the needs of their communities.

This case study describes the Support Center's history and current activities and assesses the impact of the CDFI Fund awards on the organization itself and the communities it serves. The case study draws upon a review of the Support Center's applications for assistance from the CDFI Fund, data and reports describing the organization's activities, and a series of in-person interviews conducted in January 2007 with the Support Center staff, Board members, partners, and clients. The case study is organized into four main sections: Organization Background; Products and Services; Financial Information; and CDFI Fund Program Impacts. The case study concludes by answering a series of specific questions about how the receipt of CDFI Fund awards has affected the organization.

North Carolina Minority Support Center

- Organization founded in 1991
- Headquartered in Durham, NC
- Provides loans and technical assistance to community development credit unions (CDCUs) in North Carolina
- 7 FTE employees work in Support Center headquarters and at affiliated CDCU
- Total assets in 2005: $10.5 million
- Key outcomes: The volume of mortgage loans made by CDCUs aided by the Support Center increased by two and a half times between 1999 and 2006, from $11.9 million to $31.1 million. The Support Center was also instrumental in the merger of eight CDCUs to preserve the CDCU presence in the affected communities in the face of significant financial and regulatory challenges to these small institutions.

Organization Background

History and Development

The North Carolina Minority Support Center was founded in 1991 to provide technical assistance and capital support to CDCUs throughout North Carolina. CDCUs are credit unions that serve predominantly low-income, low-wealth communities.[31] During the first half of the 1900s, CDCUs sprang up in many rural, African-American communities in North Carolina to provide residents with basic banking services they were not able to obtain elsewhere.[32] By 1970, North Carolina had 25 CDCUs, more than any other state in the country.

[31] Credit unions self-define themselves as CDCUs based on having a mission of serving and revitalizing low-income communities. Many CDCUs are also "low-income" credit unions, which is a designation made by the National Credit Union Administration or a state regulatory agency and enables the credit union to accept non-member deposits and secondary capital investments. The "low-income" designation is based on having a majority of credit union members making less than eighty percent of the average for all wage earners as established by the bureau of labor statistics of the United States Department of Labor or having annual household incomes that fall at or below eighty percent of the median household income for the nation as established by the United States Census Bureau.

[32] The description of the history of CDCUs in North Carolina and the development the Support Center draws heavily upon the report "Building Wealth, Building Community" prepared by the Support Center in 1996.

During the 1980s, North Carolina's CDCUs began to be squeezed by a number of factors, including the impact of economic recessions on their clients' financial fortunes and increased regulatory oversight in the wake of the crisis in the savings and loan industry. This pressure led four CDCUs to close and several others to merge into larger institutions. By the end of the 1980s, only 13 of the state's minority CDCUs survived.

Recognizing the importance of these institutions to North Carolina's African-American communities, several groups in the state worked together to create the Support Center to help stave off any further losses among the state's CDCUs. The coalition that helped create the Support Center included two nonprofit organizations created to serve the state's minority communities (the North Carolina Rural Center and the North Carolina Institute for Minority Economic Development), the Center for Community Self-Help (the founder of the CDCU Self-Help Credit Union), and the National Federation of Community Development Credit Unions. The efforts of these groups received significant financial support from the North Carolina General Assembly in the form of loan capital deposited with the CDCUs and operating support for the Support Center.

As of 2006, the Support Center had seven full time employees, including a President, Chief Financial Officer, Director of Mortgage Lending, Director of Development, marketing and communications specialist, staff accountant, and an office manager. The Support Center's staff overlaps with that of Generations Community Credit Union (described in more detail below), as the President of the Support Center also serves as Chief Executive Officer of Generations. At present, Support Center staff also fill a number of important roles for Generations, including compliance, marketing, accounting, and underwriting reviews.

During the first decade of its existence, the Support Center focused on stabilizing and expanding the CDCU network in North Carolina. By 2000, the number of CDCUs assisted by the Support Center had increased from 13 to 16, with two other groups pursuing community-based credit union charters.[33] One of the 16 CDCUs was Latino Community Credit Union, founded to serve the rapidly growing Latino population in the state. Between 1992 and 2000, the number of clients served by these CDCUs increased by more than a third, while their combined assets nearly doubled.

In 2000, the Support Center applied for its first CDFI Fund grant with the goal of increasing mortgage lending by its affiliated CDCUs and increasing the overall capacity of these organizations in terms of their financial health and the range of services offered. At this time, there were significant concerns about the growth in subprime mortgage lending in North Carolina's minority communities, with associated predatory lending practices that threatened to strip housing wealth from these communities.[34] Payday loans were also growing rapidly in the state, exposing low-income workers to

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[33] In addition to the 16 CDCUs aided by the Support Center, another CDCU serving the state was Self-Help Credit Union. But due to its size and sophistication, Self-Help did not rely on the Support Center for assistance. Unless otherwise noted, figures cited in this case study about the activities of the CDCUs aided by the Support Center do not include activities of Self-Help.

[34] For a detailed discussion of the concerns about predatory lending at this time, see the report *Curbing Predatory Home Lending: A Joint Report* by the U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development (2000).

annual interest rates of nearly 400 percent for short-term loans.[35] The Support Center's efforts to increase mortgage lending and other products and services offered by CDCUs was intended to provide a counterweight to predatory mortgage lending and payday loans that were plaguing the state's minority communities.

However, around the same time that the Support Center was applying for its first CDFI grant, the CDCU network was facing another round of economic challenges. New policies implemented by the National Credit Union Administration (NCUA) following the 1998 Credit Union Membership Access Act placed increased regulatory pressure on smaller credit unions.[36] Perhaps most importantly, the new regulations imposed prompt and corrective action standards for credit unions that failed to meet net capital ratio standards, which placed limits on increasing asset size. The financial services industry was also becoming more competitive, placing smaller credit unions that offered a limited range of products and could not afford to invest in automated systems at an increasing disadvantage. In this context, the economic recession of 2001 caused significant financial strain for a number of the Support Center's affiliated CDCUs. Many of these smaller credit unions found themselves caught in a Catch-22 situation—their limited financial product offerings reduced demand for their services, but until they improved their capital position they could not expand or introduce new financial products.

The first credit union to succumb to these pressures was Tri-County Credit Union in Ahoskie, NC, which became insolvent, but with the Support Center's assistance was merged into St. Luke Credit Union in Windsor, NC. That same year, when Gateway Community Development Credit Union was deemed by regulators to be insolvent, the Support Center was brought in to restructure Gateway into a new entity, Generations Community Credit Union, under the Support Center's management. The Boards of Directors of the Support Center and Generations have overlapping membership, blurring the distinction between these organizations. The Support Center provided an infusion of secondary capital and grant income to make Generations solvent.

The idea behind Generations Community Credit Union was to create a credit union with a statewide charter that would allow the Support Center to foster mergers with other small credit unions and, in the process, achieve the economies of scale needed to improve the management and product offerings of these institutions to make them competitive. Most of the small credit unions in the Support Center's network had only two full-time employees. Even in the cases of larger institutions, it was difficult to attract and retain staff with the expertise needed to manage increasingly complex banking activities. Located in small, rural communities, these organizations also had trouble assembling Boards of Directors with the expertise needed to provide effective oversight of these organizations. By merging these smaller entities, Generations should be able to support the range of staff and Board expertise needed to expand the services offered to members.

Between 2003 and 2006, Generations absorbed an additional seven credit unions, with all but one of the mergers forced by regulators declaring the credit unions insolvent. Self-Help Credit Union also

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[35] For an examination of payday lending in North Carolina, see Michael A. Stegmanand Robert Faris, "Payday Lending: A Business Model that Encourages Chronic Borrowing." in *Economic Development Quarterly*, Volume 17, No. 1, February 2003.

[36] Marva Williams, "Financial Services for People of Modest Means: Lessons from Low-Income Credit Unions." Chicago, IL: Woodstock Institute, March 2004.

absorbed four troubled credit unions, while School Workers Federal Credit Union, the second largest of the CDCUs in the state, absorbed two others. By 2006, what had once been a network of 17 CDCUs serving the state was now an association of four entities: Generations Community Credit Union, First Legacy Federal Credit Union (the renamed School Workers Credit Union), Latino Community Credit Union, and Self-Help Credit Union, with only the first three institutions relying on the Support Center for technical or financial assistance.

Although the number of CDCUs has declined, the merger of smaller entities into the four remaining CDCUs has helped to maintain the presence of these institutions in the communities historically served by the Support Center's network. All of the Support Center's funders interviewed for this study commented that without the Support Center's actions to create Generations as a vehicle for absorbing financially troubled credit unions, its is likely that several of the credit unions would have been dissolved while others would have been absorbed by mainstream credit unions without the same focus on hard-to-serve low-income and minority communities. By a variety of measures, the resulting CDCU network is in better financial health than prior to the wave of mergers. Prior to the mergers, across the 17 institutions net worth ranged from a low of –3 percent to 24 percent. Now, net worth ranges from 12 to 16 percent. Across the four remaining CDCUs, assets, loans, and real estate loans have all grown.

The process of absorbing so many financially troubled institutions into a single entity has required a great deal of the Support Center's time and financial resources over this period. Despite these demands, the Support Center's efforts have succeeded in helping to expand mortgage lending activities through its network of CDCUs. In its 2000 application to the CDFI Fund, the Support Center established a goal of tripling the volume of mortgage lending from $12 million in 1999 to $36 million over a five-year period. By the end of 2001, the CDCU network had made substantial progress toward this goal, with $19 million in outstanding real estate loans. The resulting wave of mergers slowed progress somewhat, so that by late 2006 the three remaining CDCUs had $31 million in outstanding real estate loans. Thus, despite the unanticipated challenge of managing the merger of many of its affiliated CDCUs and making investments to resolve their financial difficulties, the network came close to achieving its goal of $36 million in outstanding mortgages.

In addition to supporting the expansion of mortgage lending, the economies of scale achieved by creating Generations helped to expand the range of services offered to members. The credit union now offers share draft accounts (checking accounts) and Visa debit cards and is introducing automated telephone banking services. Generations also launched an alternative payday loan product in mid-2004. The interest rate on these loans—15 percent—is a fraction of what is charged by most payday lenders. Also, if the loans are rolled over more than twice, which is common among payday loans, borrowers are required to obtain debt counseling over the phone through a partnership with a consumer credit counseling service based in California. In this way, Generations hopes to help clients break their dependency on high cost, short term borrowing. Since being introduced in 2004, there has been fairly steady growth in the volume of these loans, with 106 loans totaling $34,803 in 2005 and 234 loans totaling $67,109 in 2006.

Several funders and Board members interviewed for this case study noted that the merger of a number of smaller CDCUs into a single entity may well represent a model that could be replicated elsewhere

to preserve institutions of this kind in the face of increasing complexity in managing even basic banking services.

At present, the Support Center is at something of a crossroads in its development. It has largely succeeded in preserving the network of CDCUs serving minority communities in North Carolina. But rather than providing technical assistance and capital support to 16 credit unions, it is largely supporting only three institutions—Generations, First Legacy, and Latino. These organizations still rely heavily on the Support Center for both technical assistance and as a source of capital—particularly Generations given the overlapping Boards and the broad range of functions played by the Support Center's staff. But as these credit unions grow, they should become more self-sufficient. The Support Center's role will have to continue to evolve along with the changing circumstances of CDCUs in North Carolina. At present, there is still a strong need for the Support Center's expertise in providing both technical assistance and access to capital. In the future, the nature of the technical assistance may evolve to meet new needs, such as for secondary marketing of mortgage loans to expand lending operations or the provision of capital or guarantees to support small business lending. At present, one of the key challenges for both Generations and Latino is to expand their deposits to support greater mortgage lending activity. The Support Center's help in developing marketing approaches to expand deposits from both individuals and socially responsible investors will be of great importance in helping these institutions achieve the scale they need to serve their markets and become more self-sufficient.

Organizational Structure and Staffing

The Support Center itself has seven full time employees, including a President, Chief Financial Officer, Director of Mortgage Lending, Director of Development, marketing and communications specialist, staff accountant, and an office manager.

The Support Center's staff overlaps with that of Generations Community Credit Union as the President of the Support Center also serves as Chief Executive Officer of Generations. At present, Support Center staff also fill a number of important roles for Generations, including compliance, marketing, accounting, and underwriting reviews.

Products and Services

Clients and Service Area

While the Support Center's direct clients are North Carolina's CDCUs, its ultimate clients are the low-income, largely minority residents served by these institutions. Exhibit 1 illustrates the geographic coverage provided by the four credit unions. More specifically:

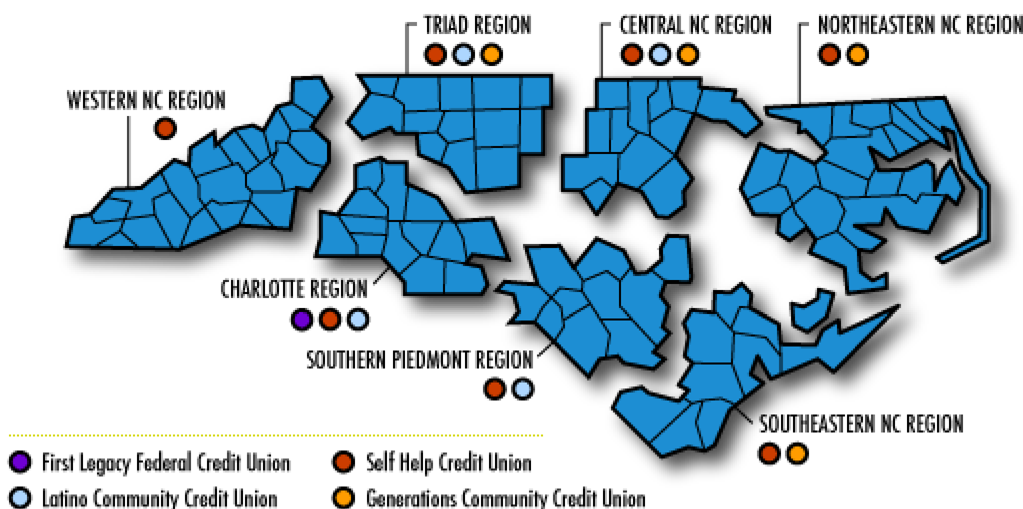
- ***Generations Community Credit Union*** has a statewide charter, but its activities are concentrated in the eastern half of the state where it has 10 branch locations. Approximately 98 percent of its 12,000 members are African-American.
- ***First Legacy Federal Credit Union*** serves a seven county area surrounding Charlotte in the western Peidmont region of the state through five branch locations. First Legacy has more than 6,000 members who are mostly African American.

- ***Latino Community Credit Union*** is a fast-growing institution serving more than 50,000 members throughout the state through five branch locations. Almost all of Latino's members are Hispanic.
- ***Self-Help Credit Union*** serves clients throughout the state, focusing primarily on small business and mortgage lending. The credit union does not offer consumer services other than thrift accounts and does not have a public branching network. Due to its scale, Self-Help does not rely on the Support Center for assistance, but it is a collaborative partner in supporting the other CDCUs and has benefited from the Support Center's advocacy work on behalf of the state's CDCUs.

According to foot traffic and historical records, about 60 percent of the people served by the CDCUs affiliated with the Support Center are African-American, 25 percent are Latino, and 10 percent are white, another race, or multi-ethnic. About 90 percent of the members are low to moderate income.

The CDCUs in the Support Center's network also disproportionately serve a previously unbanked population. In separate interviews, representatives of two banks that are investors in the Support Center both commented that CDCUs play a valuable service by bringing the unbanked population into the banking system. Members of CDCUs generally have low-incomes and can be wary of dealing with large banks due to historical legacies of discrimination. The CDCUs educate their clients about the benefits of banking services and help them develop better financial management skills. The banks view CDCUs as the first rung on a ladder of financial services. Over time, as the income and financial needs of these clients grow, they are likely to seek out the more complete financial services offered by banks. A goal of the CDCUs is to develop a more complete menu of financial services to be able to retain customers over time.

Exhibit 1: Regions of the State Covered by North Carolina's CDCUs



Source: Support Center web site (http:/www.ncmsc.org)

Services Provided

The Support Center provides services in three main areas: technical assistance, capital support, and capacity grants. However, in assessing the impact of the Support Center on the communities served, it is also important to consider the range of services provided by the CDCUs themselves. Each of these types of services is discussed below.

Technical Assistance

Historically, the Support Center has provided comprehensive technical assistance services to CDCUs to help them establish sound lending and collections policies, recruit staff, develop new products, implement marketing strategies, and manage crisis situations. These services are provided free of charge. In the wake of the consolidation that has occurred, these services are now primarily provided for Generations and, to a lesser extent, First Legacy. Among the specific types of technical assistance provided are the following:

- *Accounting Support Center*: Through this center, the Support Center staff perform many of the daily and monthly accounting tasks for both Generations and, beginning this year, First Legacy credit unions.
- *Mortgage Lending Support*: Through its Director of Mortgage Lending, the Support Center provides assistance to the CDCUs in developing underwriting policies, training lending staff, compliance reviews, and reviewing all loan files for deficiencies for correction before the loans are sent to their servicer. These services have enabled the credit unions to develop a higher quality portfolio earlier in its lending program, and to increase the capacity of staff to deliver appropriate mortgage lending services to low-income and low-wealth members.
- *Marketing Support*: The Support Center is responsible for marketing efforts aimed at attracting non-member deposits from banks, foundations, and other socially responsible investors. The Support Center is also playing a lead role in developing marketing plans to expand the CDCUs membership.
- *Compliance*: The Support Center staff handle all compliance related tasks for Generations.
- *Advocacy*: The Support Center serves as an advocate for North Carolina's CDCUs, both with the state government and with national organizations. This advocacy results in capital support for the network (described more below), additional support for training and supportive services for CDCUs, and influence in laws and regulations affecting CDCUs and their members.
- *Training:* The Support Center has conducted weekend retreats for volunteers, including Boards of Directors, credit committees and supervisory committees and member credit unions. These services allow staff, Boards and committees to better understand and take proactive steps to ensure that the credit unions do not take undue risk, fall into disrepair, and invite the involvement of regulators. In addition, from time to time the Support Center has also implemented financial literacy curriculum at member credit unions, including homebuyer workshops. These are conducted when time and funds allow.

Capital Support

Through its Loan Fund, the Support Center provides capital support for CDCUs in several forms, including general deposits, pledgable deposits, and secondary capital. The Loan Fund is capitalized by loans from banks and foundations as well as grants from foundations, the CDFI Fund, and the state of North Carolina. The Support Center helps to attract these funds by providing the expertise and oversight that gives investors confidence that the funds will be effectively used. The Support Center also serves as a conduit for grant funds that CDCUs might otherwise be ineligible to obtain as they are not 501(c)3 organizations. The Loan Fund at present includes the following investments with CDCUs:

- *General deposits* are made into individual accounts at the maximum deposit-insurance level of $100,000 to shield these investments from risk.[37] The deposits provide CDCUs with capital to support lending activity—for every dollar of deposit, one dollar can be loaned out. At present, the loan fund has $4,155,612 in these deposits with CDCUs.
- *Pledgable deposits* consist of funds provided by the state of North Carolina specifically to support small business lending by CDCUs. When pledged to a CDCU these funds are not insured, so the Support Center holds loan loss reserve capital of 5 percent against pledged funds. This investment by the state was made some time ago and has not been added to in a number of years. At present, the Support Center has $1,890,879 in pledgable deposits with CDCUs.
- *Secondary Capital* is subordinated debt that NCUA considers as equity provided that the funds are: 1) uninsured and generally at-risk; 2) the investor is an institution; and 3) the term of the investment is at least five years. As an equity investment, secondary capital not only supports lending, but also enhances the CDCUs financial stability by improving its net capital position. In essence, for every $7 lent out in mortgages, credit unions need to have $1 in equity. Thus, secondary capital can leverage seven times its amount in mortgage lending—assuming the credit union has sufficient deposits. The Support Center currently has $830,000 in secondary capital investments with credit unions.

The investments made through the Support Center's Loan Fund earn interest of 3 percent or more, which provides CDCUs with affordable capital. However, the cost of funds for the Support Center is generally below this amount, including 0 percent for grants and a range from 1 to 3.75 percent for investor loans. The difference in interest rates provides income for the Support Center to support its technical assistance activities.

Capacity Support Grants

The Support Center also provides grants to CDCUs to support the development of new or improved services, hire staff, or expand or upgrade computer or software systems. At present, Generations is the primary beneficiary of these activities

[37] In some cases the Support Center is able to use a jointly-owned deposit structure with two entities that allows insured deposits up to $200,000.

Services Offered by CDCUs
As noted above, the primary impact of the Support Center's activities comes through the services provided by the CDCUs themselves for their predominantly low-income, minority members. These services include:

- Regular share accounts (savings);
- Share draft accounts (checking);
- Certificates of deposit;
- Access to automated teller machines;
- Debit cards;
- Direct deposit;
- Auto loans;
- Personal loans (including share secured loans, unsecured loans, salary advance loans, and credit builder loans);
- Mortgages; and
- Financial education services.

As discussed in more detail below, the services provided by the CDCUs help bring unbanked individuals into the banking system, educate them about financial management, and provide savings and borrowing opportunities that provide a counterweight to the growing activities in these communities by subprime mortgage lenders and payday advance companies.

Other Organizations Providing Similar Services

Several other organizations provide technical assistance and financial support for credit unions, but the level of assistance provided by the Support Center to North Carolina's CDCUs goes well beyond the services available from these other organizations. The North Carolina Credit Union League, the Credit Union National Association (CUNA), and the National Credit Union Foundation are all sources of training and education for credit unions generally, but the training events are aimed at mass audiences and are not tailored to the specific needs of an individual credit union—or even the specific needs of a CDCU. The National Federation of CDCUs in New York is specifically focused on assisting this type of organization and offers financial support in the form of deposits and secondary capital as well as occasional grants. But this organization serves the entire country and so could not be expected to direct significant resources solely at North Carolina. The Support Center also coordinates its activities with the National Federation to ensure that its activities complementary and not competitive.

The role that the Support Center has played in supporting the small CDCUs in North Carolina over time and in helping to grow the CDCU presence in low-income communities is unique in the country. In fact, the example provided by the Support Center in preserving CDCUs in North Carolina has been publicized by the Ford Foundation and, along with the success of Self-Help and Latino, led to Durham being selected as the site of the 2006 annual conference of the National Federation of CDCUs.[38]

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[38] See "Lending a Hand: Community development credit unions target people—and profits," in Ford Foundation Report, Fall 2004.

Financial Information and CDFI Fund Awards

Financial Information

Exhibit 2 presents a summary of key financial indicators for the Support Center covering odd years from 1997 through 2005. During this period, the Support Center experienced steady growth in its assets and outstanding loans, reflecting growing financial support for CDCUs over this period. From 1997 to 2005, both total and net assets increased by a 15 percent annual rate, while the Support Center's outstanding loan portfolio grew at a 9 percent annual rate.[39] Growth in assets and outstanding loans slowed between 2003 and 2005, likely reflecting the challenges faced during this period by the creation of Generations.

As Exhibit 2 also illustrates, the Support Center's business model relies on outside grants and contributions to cover its annual expenses. Since 2001, the ratio of earned income to expenses (the self-sufficiency ratio) has only ranged from 12 to 17 percent. The primary source of earned income for the Support Center is interest earned on investments with CDCUs, but this only covers a small share of their annual expenses. Grants from the state of North Carolina and a variety of foundations cover the shortfall between the Center's earned income and its expenses.[40]

Exhibit 2
Support Center Financial Indicators

	1997	1999	2001	2003	2005
Total Assets	3,351,810	5,637,075	8,045,355	10,376,915	10,594,377
Net Assets	2,251,810	3,208,926	4,938,437	6,697,053	6,740,907
Net Asset Ratio	0.67	0.57	0.61	0.65	0.64
Total Adjusted Notes Payable	1,100,000	2,400,000	2,588,243	3,534,546	3,837,892
Net Assets Available for Financing	NA	NA	3,576,903	5,451,715	5,449,601
Total Financing Capital	NA	NA	6,165,146	8,986,261	9,287,493
Total Outstanding Loan Portfolio	3,031,628	3,423,053	4,614,821	5,918,700	6,253,439
Deployment Ratio	NA	NA	0.75	0.66	0.67
Total Earned Income	28,371	183,380	253,301	222,499	256,226
Total Grants and Contributions	393,750	910,000	1,177,444	1,637,088	1,488,932
Total Income	422,121	1,093,380	1,430,745	1,859,587	1,745,158
Total pre-tax Expenses	377,327	672,490	1,461,349	1,849,248	1,629,284
Net Income	44,794	420,890	(30,604)	10,339	115,874
Self Sufficiency Ratio	0.08	0.27	0.17	0.12	0.16

[39] Net assets provide a measure of how much an organization's assets exceed its liabilities. Net assets are calculated as total assets minus total liabilities.

[40] Not shown are loan losses experienced by the Support Center. However, since most of its investments have been in the form of general deposits covered by deposit insurance, the Center is actually exposed to little risk of loss.

Awards History

Exhibit 3 summarizes the three awards that the Support Center has received to date from the CDFI Fund. In 2000, the Support Center received a $2 million financial assistance grant for its Loan Fund, which was intended to support general deposits with CDCUs to provide them with the capital needed to expand their mortgage lending activity. At the same time, the Center also received $30,000 in Technical Assistance funds to acquire technology needed to offer technical assistance to CDCUs throughout the state from remote locations. Up to that point, the Support Center staff had spent many hours traveling around the state to provide in-person technical assistance. The CDFI grant was used to purchase computer hardware and software needed to provide remote accounting support to credit unions, including providing the network of CDCUs with access to the Internet. In 2004, the Support Center received a second financial assistance grant for its Loan Fund that was used to make secondary capital investments in CDCUs to expand their mortgage lending capabilities.

Exhibit 3: CDFI Fund Awards to MMCDC

Year Awarded	Award Amount	Award Description
2000	$2,000,000	Financial Assistance Grant for Loan Fund used to make general deposits in CDCUs to support mortgage lending
2000	$30,000	Technical Assistance to acquire technology needed to supply remote technical assistance
2004	$500,000	Financial Assistance Grant for Loan Fund used to make secondary capital investments in CDCUs to support mortgage lending

Leverage of Non-CDFI Fund Monies

The Support Center receives funding from public, private and foundation sources. In addition to support from the CDFI Fund, the Support Center receives significant contributions in the form of grants from the State of North Carolina, the Z. Smith Reynolds Foundation, the Ford Foundation, and the Heron Foundation. The Support Center also benefits from low-interest loans from these organizations as well as from First Citizens Bank, Wachovia, Bank of America, and SouthTrust Bank.

CDFI Fund Program Impacts

Impacts on the Organization

Interviews with Support Center staff, Board members, and investors, and with CDCU clients identified a number of significant impacts of the CDFI Fund on the organization. Among the key impacts are the following:

- ***Provided an Important Source of Investment Capital:*** The financial assistance from the CDFI Fund was very important to the Support Center's Loan Fund. The CDFI investment of $2.5 million represents more than a quarter of the $9 million currently in the Loan Fund. The CDFI Fund is one of the few entities that will provide this type of

capital for nonprofit organizations, so it has been a key source of funding for the Support Center (and credit unions generally).

- ***Provided a Source of Income for the Center:*** The Support Center's only source of earned income at this point is the spread between its cost of funds and the interest earned on investments with CDCUs. By providing assistance in the form of grants, the CDFI Fund investments are an important source of earned income for the Support Center to carry out its broader mission of providing technical assistance to the state's CDCUs.

- ***Enhanced the Organization's Reputation through Certification:*** As part of the process of applying to the CDFI Fund in 2000, the Support Center also received certification from the Fund. Investors and the Support Center staff both becoming certified was an important milestone, imparting legitimacy to what was still a fairly young organization.

- ***Leveraged Additional Investments:*** Interviews with investors confirmed the importance of the CDFI Fund awards in leveraging other investments in the Support Center. Foundations awarding grants to the Center were encouraged by the fact that they were not the only source of grants for the organization. For banks providing investments in the form of loans, the CDFI Fund grants provided greater security that the banks' investments would be protected. Since its first CDFI award in 2000, the Support Center has received significant investments in the form of loans or grants from the state of North Carolina, the Ford Foundation, the Z. Smith Reynolds Foundation, the Heron Foundation, Golden LEAF Foundation, Bank of America, First Citizens Bank, and Wachovia.

- ***Improved Organizational Efficiency:*** The technical assistance grant represented an important first step in acquiring the technology needed to make more efficient use of Support Center staff by enabling the ability to provide technical assistance from a remote location.

- ***Encouraged Strategic Planning:*** Support Center staff noted that the CDFI Fund application requirements for business plans, financial projections, measures of financial health, and measures of outcomes realized all contributed to enhancing the organization's strategic planning.

Impacts on Clients and Communities

Undoubtedly the biggest impact that the Support Center has had on its clients has been its successful efforts to preserve the historical network of CDCUs serving North Carolina's low-income minority communities in the face of significant challenges to these small institutions. By serving as an intermediary with a range of funders, the Support Center has been able to raise capital and provide services that the individual credit unions would not otherwise have been able to tap. With the Support Center's assistance, the network of CDCUs in North Carolina not only survived during the 1990s, it actually expanded. But by the start of the new decade it became evident that the combination of new economic, regulatory, and competitive pressures were more than most of these small institutions could bear. In response to this crisis, the Support Center engineered a creative solution: to use its expertise and financial resources to sponsor the merger of eight of these CDCUs

into a single credit union that would have sufficient scale to be competitive in today's financial environment. All but one of these mergers was prompted by regulators finding that the credit union was insolvent. Virtually all of the people interviewed for this case study believed that absent the sponsorship of the Support Center for the new credit union, these institutions would have most likely either have been dissolved or merged into more mainstream credit unions that would not have the same mission of serving low-income communities. The Support Center has also been instrumental in supporting First Legacy in its merger with two other troubled CDCUs. As a result, despite the challenges faced by North Carolina's CDCUs, the Support Center has helped to ensure that the communities historically served by these institutions continue to benefit from the services they offer. In fact, the CDCU network has greater geographic coverage now than it has in the past and is well positioned for future growth.

The remainder of this section discusses the key impacts of CDCUs on their communities.

Increased Home Mortgage Lending

The primary intended use of the CDFI Fund grants to the Support Center was to help expand mortgage lending by the CDCU network. The growth of mortgage lending is important for the CDCUs for several reasons. Given that a fundamental mission of these institutions is to build financial assets and wealth in their low-income minority communities, having products to support homeownership among their members is of great importance for meeting this goal. With the rapid growth of subprime—and all too often predatory—lending in these communities, it is also important the CDCUs members have other the option of turning to these institutions to meet their mortgage needs. Many of the members of these institutions do have limited incomes and wealth as well as poor credit. But because they often have had a relationship with their credit union for some time, the CDCUs are in a position to better assess the willingness and ability of their borrowers to make their mortgage payments. This type of character lending has all but disappeared from today's mortgage market, but is an important option for the CDCUs' borrowers to be able to obtain mortgage credit on prices and terms that make homeownership as affordable as possible for them. Finally, it was also important for the CDCUs to introduce mortgage lending—as well as other new financial products and services—to be able to retain existing members and attract new members.

By providing significant capital for the Support Center's Loan Fund, the CDFI Fund grant helped expand the ability of the CDCU network to engage in mortgage lending. But as important as the capital is for these institutions, the Support Center's role in providing technical assistance has also been extremely important. The technical assistance has included the development of mortgage lending policies, training of staff in these processes, the formation of credit committees, and help in obtaining and implementing software systems needed to manage these loans. Without this technical assistance it is hard to imagine that the smaller CDCUs would have been able to start mortgage lending.

Given the upheaval entailed in merging 17 CDCUs into 4 institutions, it is impressive that the network has been able to expand its mortgage lending at all. Between 1999 and 2001 mortgage lending increased among the network from $11.9 million to $18.7 million. From the end of 2001, just prior to the start of the wave of mergers, to the end of 2006, the volume of mortgages outstanding

among the CDCU network increased by another 67 percent, from $18.7 million to $31.1 million.[41] Much of this increase is attributable to Latino Community Credit Union, which first introduced mortgage lending after 2001 but now accounts for nearly half of the loans outstanding among these institutions. But Generations and First Legacy also experienced a growth in their real estate lending of 13 percent over what was for them a tumultuous period. Most importantly, these two institutions are now better positioned to expand their mortgage lending in the coming years.

Alternative Payday Loan Products

Another important concern for the low-income, minority communities served by CDCUs has been the growth of payday loans. These short-term loans generally carry annual interest rates of about 400 percent, and because many borrowers end up rolling over these loans several times before they are paid off, the final cost can be much higher. Both Generations and First Legacy are introducing alternative products to meet their members' need for short-term credit. These products offer more affordable loan terms and counseling support needed to help borrowers gain better control of their finances. Having introduced its salary advance loan product in 2004, Generations originated 234 of these loans in 2006. At a 15 percent annual interest rate coupled with mandatory debt counseling if the loan is rolled over more than twice, this product provides members with a significant alternative to a payday loan. First Legacy is also in the process of introducing a similar product.

Expanded Financial Services

Introducing new products and services has been a key challenge for the small CDCUs in the Support Center's network due to their lack of scale and staff expertise. In turn, the limited range of available services made it difficult for the CDCUs to attract or retain members. By creating Generations from eight small institutions, the Support Center made it possible for the credit union to expand and improve the financial services offered. In recent years, in addition to the salary advance product described above, Generations has also introduced at all its branches share draft accounts (checking), Visa debit cards, and plans to include telephone banking. It plans to add on-line banking capability in the future. The expansion of the financial service offerings is very important to help these CDCUs meet the needs of their members and remain competitive with other financial institutions.

Providing Financial Education

In addition to the products described above, the CDCUs also have an important impact on their communities as a source of financial education. In some cases, the education comes through routine interactions with clients, but in many cases it is delivered through formal classes or counseling sessions. Latino Community Credit Union, for example, offers comprehensive financial education for many of its members in recognition of the fact that immigrants have little familiarity with US financial institutions and practices. First Legacy's mortgage loan officers are all trained as housing counselors and use meetings with mortgage applicants to counsel them on the process of buying a home and educate them about how much home they can afford given their circumstances. Generations' salary advance product comes with mandatory telephone debt counseling when loans are rolled over several times.

The importance of these CDCUs as sources of financial education was most clearly identified by the representatives of banks interviewed for this study. These individuals noted that although in some

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[41] These figures exclude Self-Help, which does not rely on the Support Center for assistance.

respects the credit unions could be seen as competitors with the banks, in fact they viewed these institutions as important entry points into the financial system for low-income and minority individuals with little prior banking experience. The banking representatives noted that the degree of personal interaction and education required by these customers was more than their banks would be able to provide. Through their formal and informal methods of educating their members, CDCUs were viewed as providing an important service of developing future banking clients. The Support Center supports these educational efforts both directly by occasionally sponsoring training for credit union staff and indirectly through its efforts to maintain these institutions in their communities.

Review of Hypotheses

Did the Fund award allow the Support Center to (a) expand its community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

The financial assistance awards from the CDFI Fund increased the amount of general deposits and secondary capital in the Support Center's Loan Fund that could be made available to CDCUs to support the growth of their mortgage lending activity. In all, the CDFI Fund awards account for more than a quarter of the balance of the Support Center's Loan Fund and so directly account for a sizeable share of the funds the organization invests in the CDCU network. Taking into account the other investments leveraged by the Fund awards, the contribution to the Loan Fund is even greater. At the time of the first award, the CDCU network was just beginning to make inroads into the mortgage market, with total loans outstanding of $11.9 million as of 1999. By the end of 2006, the volume of mortgages made through the network had increased by roughly two and a half times to $31.1 million—despite having gone through a period of significant turbulence with a wave of mergers reducing a network of 17 CDCUs to just four.

In addition to providing capital to support mortgage lending, the Support Center's technical support has also been of great importance for the CDCUs in developing their capacity to offer mortgages. The Support Center has helped to develop underwriting policies, credit committees, loan officers, and software capabilities. While the CDFI Fund awards did not directly support these activities, the income earned from of these funds contributed to the Support Center's ability to support these activities.

Similarly, the Support Center's activities in helping to create Generations Community Credit Union—including both technical assistance and financial support—led to this credit union being able to introduce new products and services and created the opportunity for expanding its geographic reach to cover the entire state. The Loan Fund was an important resource that the Support Center could draw upon for both capital and income in helping to create Generations.

Did the Fund award help the Support Center to increase its community development outcomes?

The direct impact of the CDFI Fund award has been in supporting the expansion of mortgage lending activity by the network. As noted above, the volume of mortgage loans increased by two and a half times between 1999 and 2006. This increase is notable for having occurred during a period when the North Carolina CDCU network was undergoing profound restructuring. Indirectly, the CDFI Fund award also contributed to the Support Center's success in maintaining the CDCU network in North

Carolina. The CDCU network generally has had a broader range of community impacts, including the introduction of a broader range of basic financial services through Generations, the development of alternatives to high cost payday loans, and support for financial education of their members.

Did the Fund award help strengthen the financial health of the Support Center as measured by key financial ratios?

The CDFI Fund awards have made a significant contribution to the expansion of the Support Center's Loan Fund, which is one of its primary means of supporting North Carolina's CDCUs. In this regard, the Support Center has experienced steady growth in both total and net assets over time. Other key measures of the Support Center's financial circumstances have also been fairly steady over time. One issue for the Support Center is that its earned income covers less than 20 percent of its annual expenses. This situation also has not changed much over time, but given the importance of its role in supporting the state's CDCUs, the organization has continued to attract support from the state and foundations to help fund its annual operating costs.

Did the FA award help the Support Center to leverage other public and private non-CDFI Fund monies?

Since its inception, the Support Center has relied on a variety of public and private funding sources for both its capital and operating needs. Funders interviewed for this case study said that the CDFI Fund awards influenced their willingness to invest in the Support Center. The CDFI awards were important as a signal of the strength of the organization, gave lenders greater trust that their investments would be preserved, and gave foundations comfort that they were not the only source of financial support for the organization.

Did the TA awards help the Support Center to (a) increase its organizational capacity, (b) improve its financial health, (c) increase its operational efficiency, (d) improve its portfolio quality, and/or (e) improve its community development performance?

The Support Center received a technical assistance grant in 2000 to help build capacity to offer technical assistance to CDCUs from the organization's Durham headquarters. For a small organization with limited staff, the ability to provide technical assistance without having to spend a great deal of time traveling around the state meant staff could devote more time to assisting their clients. Since that time, the Support Center has expanded its technological capabilities for providing assistance with accounting functions and other tasks, but the technical assistance grant in 2000 was an important first step in this process.

Case Study: Pacific Community Ventures

Summary

This case study describes the experience of Pacific Community Ventures (PCV), a 501(c)(3) nonprofit firm headquartered in San Francisco that provides advisory services, asset building capabilities, evaluation and knowledge sharing, and manages a number of venture funds targeted at under-served communities across the state of California. PCV's mission is to provide resources and capital to businesses that bring economic gains to low-income communities and people in California. Using its broad network of resources, PCV invests both financial and human capital in small companies in order to increase wealth and opportunity for lower-income California communities and workers.

PCV was founded in 1998 and began by providing advisory services to six Bay Area companies. By 2006, there were over 50 firms across the state in PCV's portfolio of advised and invested companies. PCV's first venture fund began investing in target companies in 1999, investing about $3 million during its first three years. At the end of 2006, PCV's active portfolio of invested companies included nine firms, with outstanding investments of over $10 million. Its third venture fund is in the process of closing, with a target of $30 to $40 million in investment capital. Fund III anticipates making its first investment for over $1 million in early 2007.

PCV and its venture funds, PCV LLC I (hereafter referred to as Fund I) and PCV LLC II (hereafter referred to as Fund II), are each certified CDFIs. A $1 million CDFI Fund Financial Assistance (FA) award was granted as an investment in PCV's Fund II. In addition to the direct benefit of the dollars from the CDFI Fund award, a key value of Certification and of the FA award was the signal that it sent to other potential investors and partners – that the CDFI Fund had certified PCV and given them money. As PCV has expanded into new locations in California, the CDFI Fund certification and the Fund's investment have given the firm the credibility needed to attract investors and partners. In addition, having government money invested in the firm's venture fund has enabled PCV to raise significant amounts of outside funds, thereby allowing PCV to expand its reach more rapidly and have a bigger impact on the lives of low- and moderate-income (LMI) people in low- and moderate-income communities.

This case study describes of PCV's products and services and explores how the receipt of CDFI Fund awards has affected the organization's ability to serve its target population and carry out its mission.[42] The case study is based on a site visit to PCV's headquarters in November 2006 and interviews with PCV staff, customers, and other stakeholders. It also draws upon data and reports provided by PCV and PCV's applications for CDFI Fund awards. The case study is organized into four main sections: Organization Background; Products and Services; Financial Information; and CDFI Fund Program Impacts. The case study concludes by answering a series of specific questions about how the receipt of CDFI Fund awards has affected the organization.

[42] Although the CDFI Fund's investment was in Fund II, this case study focuses on the parent company of the Fund, Pacific Community Ventures.

Organization Background

PCV was established in 1998 by a group of Silicon Valley venture capitalists and Bay Area business executives. The founders recognized that many companies were not being served by the venture capital industry. Most venture capital firms will not invest in non-technology businesses that are not already at scale. In addition, many institutional investors focus on companies with high multiples, primarily in the technology fields. PCV's founders raised $10 million in seed money from newly wealthy Silicon Valley individuals to establish the firm.

According to PCV staff, the firm's mission has stayed the same from day one: to provide resources and capital to businesses that bring economic gains to low-income communities and people in California. The firm assists "bricks and mortar" type businesses that provide good jobs to LMI people in LMI communities.

Pacific Community Ventures (PCV)

- Organization incorporated in 1998
- Venture capital fund started in 1999
- Headquartered in San Francisco, CA
- Provides equity for CA businesses that provide good jobs to low- and moderate-income workers
- 13 FTE employees work in 4 branches
- Total assets in 2005: $5.6 million (for the parent nonprofit)
- Key outcomes: Through 2005, PCV-financed companies employed 1,531 residents of LMI communities earning an average hourly wage of $13.18. All PCV-financed companies offered medical benefits and paid vacation, and most offered retirement plans.

The firm began by providing advisory services to a group of six businesses in 1999 using volunteers from the local business community. The original focus was on the Bay Area, where the firm's founders had a large network of business connections. While PCV's mission has stayed the same in terms of the types of businesses and communities served, the target geographic area and the types of services offered have expanded over time.

The target area for PCV's venture capital investments expanded to include the entire state of California following a California Public Employees Retirement System (CalPERS) investment in Fund II in 2001. PCV's advisory services program expanded to Los Angeles in early 2005, and to San Diego and Fresno in 2006. The firm now has offices in each of these three cities in addition to its San Francisco headquarters. It employs 13 individuals: nine in its main office in San Francisco and four in satellite offices in Los Angeles (two), San Diego (one) and Fresno (one). In addition to its regular employees, PCV uses a large cadre of volunteers to provide business advisory services.

Products and Services

As the organization has grown, PCV has expanded the services it offers to include asset building in addition to advisory services and equity capital as a way to provide a full spectrum of services that its target companies need in order to succeed.[43]

Business Advisory Service

PCV's advisory service program generally targets businesses in earlier stages of development that earn between $0.5 to $5 million in annual revenues. These companies must provide good jobs to LMI people in LMI communities. Advised companies typically find their way to PCV through the firm's large network of connections throughout the state. The advisory program includes one-on-one strategic advising for participating companies. Volunteers who are senior business leaders still active in their careers provide this advising.

A second component of the advisory program is the CEO Forums and Roundtables, which bring together the heads of the advised companies for learning sessions on a range of relevant business topics. The CEO Forums provide in-depth training to the leaders of advised companies on topics such as developing management control systems, relationship-based selling, and how to improve their success as managers. CEO Forums are led by business school professors and other experts in the field and provide a unique opportunity for advised-company leaders to have access to this level of expertise.

The Roundtable series brings together advised company leaders and experienced business executives, lawyers, and financiers to provide practical input and problem solving for a particular challenge faced by a selected company. Roundtable topics have included methods for accessing key customers, negotiating a merger or acquisition, and strategizing for growth in a particular area of the business.

PCV's advisory services are provided free of charge to participating companies. The advisory service program is funded through a variety of sources: the carried interest from investments; grants; contract fees paid for consulting and other contracted services provided by the nonprofit; and the initial seed capital invested in the nonprofit. The expectation is that over time, investment returns from the venture funds will be used to cover an increasing portion of advisory service costs.

Examples of the companies that participate in the advisory services program include Home Health Advocates and Dawson Custom Workroom. Home Health Advocates is a home health care provider that focuses on the well being of both its clients and its employees. In a field known for its high turnover and poor benefits, Home Health Advocates provides health insurance and bonuses to its employees. The company started three years ago; with the help of the advisory services provided by PCV, Home Health Advocates now employs 28 people and has annual revenues of $890,000.

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[43] Equity capital is the amount of equity available for lending or investing. It is capital that comes from grants, donations, etc. for which the program is *not* liable to repay. This term is also referred to as "net assets dedicated to lending" by nonprofit loan funds, "net worth" by credit unions, and "equity" by venture capital funds.

Dawson Custom Workroom is a small custom drapery and upholstery sewing shop that employs six LMI workers and has about $900,000 in annual revenue. Similar to Home Health Advocates, Dawson Custom Workroom provides medical benefits, paid holidays, and bonuses to its employees. The advisory services from PCV have helped the business grow by providing operational and organizational advice.

In September 2005, PCV hired an independent contractor, BTW Consultants, to conduct an assessment of its advisory service program. The firm surveyed the 23 businesses that received advisory services during the year prior to October 2005 and found that the program had positive benefits for the vast majority of participants. Most advisees (76 percent) reported having developed a new business tool or having other tangible achievements as a result of their experience with PCV. They also reported that the advisory services helped them grow and manage the business, think more strategically, set priorities and approach business challenges in new ways, and expand their network of contacts.[44]

Venture Capital Funds

PCV invests in California businesses that generate and support good jobs for LMI workers. These companies tend to be labor intensive, in industries such as food processing, value-added manufacturing, distribution, and hospitality. PCV has built a team with extensive expertise in these industries.

PCV focuses its venture capital investments in businesses that have 10 to 100 workers; that employ residents of low-income communities; and that provide living wages, health benefits, skill development opportunities, and access to wealth-creation vehicles such as company stock options and Individual Development Accounts (IDAs). PCV is a "double-bottom-line" investor, meaning the company requires both a market rate of return for expansion stage non-technology businesses as well as a social return on investment that comes from providing good jobs to residents of low-income communities.

PCV's Fund I closed in 1999 with $6.2 million in investment capital. Fund II closed in 2003 with a total of $13.7 million in investment capital, including $1 million from the CDFI Fund. PCV is in the process of closing PCV LLC III (Fund III), which is targeted at $30 to $40 million in investment capital. PCV submitted an application to the CDFI Fund that includes a request for a $700,000 investment in Fund III. All of PCV's venture capital funds are for-profit entities.

The original assumption at PCV was that the firms that received advisory services would become targets for venture capital investment. To date, this has only happened in a few cases, such as Evergreen Lodge, described below. Many of the advised firms are rather small and likely to remain too small for mainstream equity investment for quite some time. However, the partnership with PCV will likely give these firms greater access to small loans than they otherwise would have, and eventually they could be ready for equity investments from PCV or other investors.

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[44] For more details see *Advising for Change: A Report on Pacific Community Venture's Business Advisory Service*, November 2005 BTW Consultants, Berkeley CA.

During its first three years of operations, Fund I invested $3 million in 10 companies. Early experience showed that making small investments in small firms was not a successful strategy, as many of these enterprises failed. As a result of this early experience, PCV refined its investment strategy and focused on larger investments in more established companies. PCV sought to be the major investor, investing between $1 and $3 million in businesses with $5 to $20 million in annual revenue, at least two years of operating history, and demonstrated success in the marketplace. PCV now focuses its investments on "expansion stage" companies that have already proven themselves in the market and need capital for further growth. By being the major investor, PCV obtains a seat on the companies' Board of Directors. As such, PCV can play an active role in providing guidance on strategic planning, management changes in the firm (if necessary), business development, financial analysis, management support and follow-on financing. It can also ensure that the companies are meeting the goal of providing good jobs to LMI workers.

Fund II closed in 2003 with a total of $13.7 million in investment capital, including $1 million from the CDFI Fund. From January 2003 through December 2005, PCV invested in six additional companies, with much of the new investment happening in 2005 due to the recession in California between 2002 and 2004. In 2005, the total portfolio for the first and second Funds included nine companies with a total investment of $10.1 million – including Timbuk2, which was sold during 2005.

Asset Building and Knowledge Sharing

In addition to the advisory services and investment funds, PCV provides asset building services and evaluation and knowledge sharing to further promote the economic well being of LMI people in LMI communities. PCV's leadership thinks that it is important to provide a full spectrum of services to the employees of the companies that PCV work with; as a result, asset building services are a new and growing part of PCV's work.

PCV's asset building services have included negotiating for a set aside of equity for employees in a number of its financed companies, such as Timbuk2, which enables LMI workers to receive payouts upon the sale of the companies. In addition, PCV has been working with a partner organization, Lenders for Community Development (LCD) to provide IDAs for workers at several companies in its portfolio, including Beacon Fire and Safety, Niman Ranch, Give Something Back, and Silver Shield Security. PCV and LCD each fund half of the match for the IDA, and LCD manages the IDA accounts. PCV has found that IDAs are only used by about 20 percent of eligible employees, so it has recently entered into a partnership with Citibank to provide basic financial literacy and banking training to employees who are not ready to open IDA accounts.

Financial Information and CDFI Fund Awards

Financial Information

The finances of PCV are organized and presented separately for the nonprofit and each of the two for-profit venture capital funds. Information on the finances of the venture capital funds is not publicly available. The information reported here thus focuses on the parent nonprofit. It is important to note that the finances of the nonprofit do not accurately reflect the finances or performance of the venture

capital funds. PCV was founded with an initial investment of $10 million in 1998, with the expectation that the investment would be used for operations over time, which has indeed been the case. Total nonprofit assets were $8.1 million in 2001, $7.1 million in 2002, $6.1 million in 2004, and $5.6 million in 2005.

PCV receives revenues from four main sources:

- Management fees and returns from the investment funds,
- Grants and contributions from foundations and individuals,
- Revenue from consulting and service delivery contracts, and
- Interest income from seed capital funds.

Revenues from management fees increased from $126,000 in 2001 to $356,000 in 2002 to over $500,000 annually between 2003 and 2005 due to growth in investment fund size. A second major source of revenue for the nonprofit was contributions from foundations and individuals, which totaled over $400,000 in 2001, over $250,000 in 2003 and 2004, and over $850,000 in 2005. PCV has begun to focus on fund raising in the last two years. During the last few years PCV has grown substantially, and can no longer rely on the seed capital to fully fund operations. (Contributions in earlier years were more opportunistic and less as a result of strategic fund raising).

An additional source of revenue in 2005 was program fees, totaling $462,000 from consulting fees and other fee-generating services provided. This newer source of funds may become an important factor in the firm's long-term sustainability. The decline in net assets (which reflects the use of the initial seed money) was much lower in 2005 as a result of this alternative source of funds.[45] Exhibit 1 summarizes the nonprofit's finances over the last five years.

Exhibit 1: PCV Financial Indicators between 2001 and 2005

	FYE 12/31/2001	FYE 12//31/2002	FYE 12/31/2003	FYE 12/31/2004	FYE 12/31/2005
Assets					
Total Assets	$8,130,310	$7,160,906	$6,417,957	$6,111,117	$5,581,252
Net Assets	$7,933,995	$7,047,620	$6,246,938	$5,418,418	$5,098,362
Change in Net Assets	$(258,485)	$(886,375)	$(800,682)	$(828,520)	$(320,056)
Revenues					
Contributions	$414,465	$139,050	$255,600	$294,410	$853,713
Management Fees from Funds	$126,263	$356,274	$523,485	$528,221	$545,253
Program Fees	0	0	0	$4,980	$462,404
Total Revenues (including contributions)	$999,045	$602,580	$853,038	$904,813	$2,231,701
Expenses	$1,222,242	$1,381,762	$1,653,720	$1,733,333	$2,551,757

[45] Net assets provide a measure of how much an organization's assets exceed its liabilities. Net assets are calculated as total assets minus total liabilities. The net asset ratio is calculated as net assets divided by total assets.

Awards History

PCV became a certified CDFI in 2002. PCV's Fund I and Fund II are also certified CDFIs. Fund II applied for and received an FA award of $1,000,000 in 2003. This award was in the form of an investment, rather than a grant. This award made the CDFI Fund one of the investors in Fund II. The CDFI Fund has received financial returns on its investment in this fund.

PCV, the nonprofit parent company, applied for $1,000,000 for 2007, of which $700,000 would be used for investment capital in Fund III, and $300,000 to support development services. This application is pending.

Venture Fund Investment Experience

During its first three years of operations, Fund I invested $3 million in 10 companies. Seven of these 10 companies are no longer in existence. However, losses on these seven investments were small because the total investment in the failed companies was only about $1.6 million.

As a result of this early experience, PCV refined its investment approach to focus on larger investments in more established companies, and none of the companies have folded, although one has been sold at a loss (though two sold at a profit). Between January 2003 and December 2005, PCV invested in an additional six companies, bringing its total venture capital portfolio to nine companies, with a total investment of $10.1 million. One of these companies is Timbuk2, which was sold during 2005. The returns on the sale of Timbuk2 more than made up for the losses on the earlier investments. Early investments were only from Fund I, but all investments starting in 2001 were from a blend of Fund I and Fund II. To date, the gross internal rate of return on Fund I investments has been small, but the gross internal rate of return on realized investments in Fund II is in the top quartile for venture capital funds launched in 2001.

Leverage of Non-CDFI Fund Monies

PCV has raised a significant amount of money from non-CDFI Fund sources. The nonprofit started with an initial investment of $10 million, primarily from individuals from Silicon Valley, and has received annual donations on the order of $300,000 per year (though they were above $850,000 in 2005).

The first venture capital fund of $6.3 million (Fund I) included no CDFI Fund money. It was mainly funded through investments by large California-based banks and a foundation.

The second venture capital fund of $13.7 million (Fund II) included a $1 million Financial Assistance Award from the CDFI Fund. The majority of funds ($10 million) were raised from CalPERS, with the remainder from two banks and some private investors. The $10 million from CalPERS was part of CalPERS' California Initiative, established in 2001 with a goal of investing nearly $500 million dollars in economically underserved segments of the State of California. Fund II closed shortly after the CalPERS investment.

Fund III has closed on over $15 million as of early 2007, out of a goal of $30 to $40 million. The PCV staff, Board Members, and investors interviews all noted that the CDFI Fund's award to Fund II

sent an important signal to potential investors for Fund III about the quality of the investment in PCV. Not only did the CDFI Fund certify that PCV met its community development mission, but it also invested government money in the second venture capital fund. All of those interviewed said that the CDFI Fund's investment in Fund II was an important factor in PCV's ability to raise such a large amount of money.

CDFI Fund Program Impacts

Impacts on Communities

PCV focuses its investments on companies that are expected to provide well-paying jobs to LMI workers who live in LMI communities and neighborhoods. Following are highlights of PCV's accomplishments in this area:

- Between 2000 and 2005, PCV-financed companies have employed 1,531 residents of LMI communities.
- Between 2003 and 2005, inflation-adjusted wages for LMI workers in PCV-financed companies rose seven percent to $13.18 per hour in 2005 dollars. Wages in PCV-advised companies averaged $11.85 in 2005. For comparison, the San Francisco living wage in 2005 was $10.77 per hour.
- All PCV-financed companies offered medical benefits in 2005, with 78 percent of LMI employees eligible for these benefits, and 81 percent of those eligible enrolled. Sixty-two percent of PCV-advised companies offered medical benefits in 2005.
- All PCV-financed companies offered paid vacation in 2005 and 89 percent offered paid sick time. Eighty-six percent of PCV-advised companies offered paid time off in 2005.
- In 2005, 67 percent of PCV-financed companies offered 401(k) / IRA plans to LMI employees and one third provided stock options or profit sharing. Forty-three percent of PCV-advised companies offered retirement or profit sharing plans in 2005.
- All PCV portfolio companies (financed or advised) offered skill-based, trade specific training to LMI employees in 2005.

Impact on Clients

This section examines the impacts of PCV's products and services on several of its clients. The brief studies below each describe a client organization, illustrating how PCV's investment impacted the organization and its constituents.

Evergreen Lodge
PCV's investment in Evergreen Lodge is a good example of how the firm's investment philosophy is put into practice. A group of partners bought a small lodge near Yosemite in 2001. This initial purchase did not include any PCV funds.

However, when the owners of Evergreen Lodge undertook an expansion project, PCV got involved, first providing advisory services in the form of an experienced developer, and later, in 2003 investing

$750,000 in the $7.5 million expansion (Evergreen borrowed the majority of the funds needed for the expansion using the USDA loan guarantee program). The expansion enabled the lodge to increase from 17 to 80 cabins, employment increased from about 12 employees to 75, and revenues increased from about $0.5 million to about $4.5 million.

The Evergreen Lodge qualified for PCV funding because a large number of employees in the lodge are from an economically depressed area. A second way Evergreen meets PCV's double bottom line commitment is through its youth program that employs about 10 to 12 "high-potential young adults from urban backgrounds."[46] These youth live and work at the lodge for five to six months and gain work experience while living in a supportive community. The youth receive the same wages and benefits as other employees, but also receive additional training and supervision, access to an outdoor program and support services. The youth program is funded entirely by Lodge profits.

Evergreen Lodge staff report that PCV's investment was crucial to their success because without the equity investment, they would not have been able to raise the required capital to expand the lodge.

Timbuk2

In 2002 PCV was the lead investor in the recapitalization of Timbuk2, a San Francisco-based manufacturer of messenger bags. PCV invested about half of the $2.5 million that was needed. Timbuk2 qualified for PCV investment because about 40 of the firm's workers were sewing and warehouse employees, who have low/moderate incomes. As part of the transaction, PCV ensured that workers were provided with a living wage, benefits, and with a portion of the ownership of the company (through a phantom stock program).

The investment enabled the firm to expand from a single product to a wider range of products including luggage and computer bags, in addition to the original messenger bags. By September 2005 the company quadrupled in value and was sold.

As part of the sale, the employees also benefited financially. Through their portion of ownership, the 40 factory and warehouse employees shared a payout totaling more than $1 million.

Timbuk2 also benefited from PCV advisory services in addition to capital – PCV advisors helped the CEO develop financial tools and reports used to monitor performance.

Beacon Fire and Safety

In 2001 a small search fund was established by two experienced entrepreneurs and a group of investors with a goal of identifying an investment opportunity with high yield potential in an established industry. In 2002, the group purchased their first fire and safety company, and within six months bought seven more companies, creating Beacon Fire and Safety. Through mid-2005, a total of 17 companies were acquired. The fire and safety industry, which supplies fire extinguishers and first aid stations to businesses, is typically organized as very small, independent companies that generally employ a small number of low-wage workers, generally without benefits (and often without official documentation of employment). By purchasing a number of these firms, Beacon was able to

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[46] Quoted from Evergreen's literature.

obtain efficiencies and provide better wages and benefits to workers. Beacon now provides fire and safety supplies to offices across the State of California.

PCV provided about one-third of the capital for Beacon's second round of funding in 2005. As in PCV's other investments, the investment allowed PCV to provide a Board Member for Beacon whose role was to maintain focus on employee benefits. As part of its involvement in the transaction, PCV introduced asset building opportunities to Beacon employees, including IDA accounts.

The company was sold to Cintas, a large national firm, in 2006. The sale was structured as an "earnout" with one payment at the time of sale, and a second payment a year later (scheduled for mid-2007) that will depend on performance through that time. Reportedly performance to date is strong, so the expectation is for the total sale price to be in the high end of the expected range.

Conclusion

Did the Fund award allow PCV to (a) expand its community development financing activities, (b) introduce new products and services, and/or (c) expand to new markets?

According to PCV staff, Board Members and investors, one of the key impacts of the CDFI Fund's award was that it increased the amount of funds PCV could invest in target businesses, allowing PCV to expand its community development financing activities by investing in more businesses. As a result of this important investment in PCV, PCV was able to strengthen businesses that then produced additional benefits for LMI communities and workers.

As indicated in the case study, PCV has focused on the same products and services since its inception, so the Fund award did not impact this aspect of its business. Over time however, PCV has expanded its geographic target market from the Bay Area to most of the urban areas in California. The geographic expansion began with Fund II, which included the CDFI Fund award. In addition, as PCV saw additional needs in its target companies, the firm added additional services including asset building and evaluation and knowledge sharing programs.

In addition CDFI Fund certification and the FA award sent a signal to potential investors and partners about the credibility of the organization. This was particularly helpful as PCV expanded its service areas beyond the Bay Area, into areas where potential partners were less familiar with PCV and its staff.

Did the Fund award help PCV to increase its community development outcomes?

It is difficult to quantify the exact contribution of the CDFI Fund award to PCV's ability to increase community development outcomes. On one hand, it could be assumed that because the CDFI Fund contributed one-thirteenth of the funds for Fund II, that one-thirteenth of the community development outcomes can be attributed to the CDFI Fund award. However, respondents felt that the impact of the award is far greater than that because as noted above, the signal that was sent as a result of the Fund's award has enabled PCV to raise additional capital, which directly contributes to its ability to achieve community development outcomes.

Did the Fund award help strengthen the financial health of PCV as measured by key financial ratios?

As is the case with the perceived role of the CDFI Fund award in PCV's ability to increase community development outcomes, it is also difficult to quantify the role of the award in strengthening the organization's financial health. Respondents noted that the impact of the award is greater than its proportional contribution to the second venture capital fund because as noted above, the signal that was sent as a result of the Fund's award has enabled PCV to raise additional money, which directly contributes to its ability to strengthen its financial health. In addition, in part thanks to the CDFI Fund investment in Fund II, and its success to date, PCV has been able to raise a substantial amount of money for Fund III, which should further strengthen PCV's financial health and stability.

Did the FA award help PCV to leverage other public and private non-CDFI Fund monies?

This CDFI Fund award appears to have played a significant role in improving PCV's ability to leverage other private, non-CDFI Fund donations and investments. In fact, this may be the most important contribution of the CDFI Fund's award – enabling significant leverage to raise outside funds. PCV staff, Board Members and investors indicate that the CDFI Fund's investment of government money showed their confidence in PCV, indicating to other potential investors that PCV is a high-quality organization.

The exact value of the leverage is difficult to quantify, but both PCV staff and investors agreed that having CDFI Fund money in the second Fund has been very helpful, especially when raising Fund III money.

Respondents also noted that Certification provides a lot of value, particularly with regional banks that have invested in PCV's venture capital funds. Regional banks want to invest in certified CDFIs so they can get CRA credit for their investments.

Did the TA awards help PCV to (a) increase its organizational capacity, (b) improve its financial health, (c) increase its operational efficiency, (d) improve its portfolio quality, and/or (e) improve its community development performance?

Not applicable – PCV did not receive any TA awards from the Fund.

Appendix I. Data Collection Details

The sources of data for the case studies included information obtained from the CDFI Fund, publicly available data, information available at Abt Associates Inc., and information obtained on-site during the site visits. Details are provided below.

Information from the CDFI Fund

- The CDFI's applications and supporting materials to the Fund, including financial statements.
- The CDFI's history of applications to the Fund for awards, including year, amount applied for, intended use of award, whether awarded, amount awarded and approved use of award.
- The CDFI's award compliance reports, including financial statements.
- The CDFI's 2005 CIIS data, if available.

Publicly Available Social, Demographic and Economic Data

- Census and other federal and/or local social, demographic and economic data on the CDFI's service area.

Survey Data

- Any data available from the web survey Abt conducted.
- Any CDP CIIS data available.

CDFI Information

- A current staff list and Board list and organization chart, if available.
- Financial statements not available through the CDFI Fund. A complete set of financial statements requested included the most recently completed fiscal year and 3-year intervals for the life of the CDFI except for CDFIs established prior to 1990; in that case, 10-year intervals prior to 1996 and 3 year intervals after 1996 were requested.
- Any other relevant applications, documents, etc. available from the CDFI.
- Any internal or external evaluations of the CDFI or its programs.

Information Collected On Site

- Interviews with key staff at the CDFI and with one or two Board members.
- Interviews with other stakeholders including the CDFI's customers, local funders (where applicable), other key stakeholders and partners (advocacy organizations, competitors, religious groups, social service organizations, housing organizations, local community groups, and local government officials).[47] Stakeholders were identified by the CDFI as well as by other sources, such as certified CDFIs that serve the same market.

It was necessary to identify the impacted constituencies for each specific CDFI based on its type, location and services provided. For example, community development credit unions and banks usually provide banking services to individuals, non-profit organizations, small businesses and development organizations. Microenterprise development loan funds, however, are focused on small-scale entrepreneurs or self-employed individuals who need small amounts of capital to start a business. Community development loan funds predominantly lend to private organizations, both for- and not-for-profit, to develop businesses, housing, and other facilities in the community. Venture capital funds are focused on small, promising businesses that need equity and expertise to realize their growth potential.

Each Abt site visitor worked with CDFI staff to identify appropriate respondents and to create a schedule for the site visit. Both Abt and CDFI staff then confirmed this schedule in writing before the site visit. Appendix II includes topic guides used during the site visit interviews.

Before each site visit, Abt staff wrote a draft of background information about the site. This write-up included information about the organization's location, leadership, history, mission, goals, services, clientele and CDFI Fund awards history based on a review of written materials provided by the CDFI Fund, public sources, and the CDFI. These write-ups were reviewed by the CDFI before or during the site visit.

After completion of the site visits, site visitors shared their draft case study with CDFI staff, requesting that they confirm the accuracy of the report and fill in any missing details.

[47] Some of the interviews with stakeholders were conducted by telephone if that was most convenient for the respondent or if the respondent was not located in the same city as the CDFI.

Appendix II. Topic Guides for Site Visit Interviews

Topic Guide for CDFI Respondents

1. Get the CDFI's feedback on the draft background section (corrections, additional information, fill in the gaps)
2. Review any evaluations they may have about the outcomes or impacts of their efforts.
3. Role CDFI Fund FA award played (or did not play) in the ability of the CDFI to expand its financing in its existing market, in mew markets, in new products/services. Review volume of financings, markets and products over time.

7. Role CDFI Fund FA award played (or did not play) in the ability of the CDFI to increase its community development outcomes. Review available data on community development outcomes.
8. Role CDFI Fund FA award played (or did not play) in the ability of the CDFI to strengthen its financial health. Review financial indicators over time.
9. Role CDFI Fund FA award played (or did not play) in the ability of the CDFI to leverage other financing sources. Get information on other funders – amounts applied for, amounts received, application requirements, planned and actual uses of funds.
10. Any other impacts?
11. Impact on the organization of instances where CDFI Fund applications were denied, including their ability to find other sources of funding to pursue these activities.
12. Thinking more broadly about the Financial Assistance and Technical Assistance programs, overall thoughts on the value of the program locally and nationally.
13. Suggestions for improving the Financial Assistance program? Any ideas for:
    - Restrictions on which entities can apply for an award
    - Certification requirement
    - Application process
    - Application requirements
    - Criteria used for evaluating applications
    - Restrictions on how the award can be spent
    - Reporting requirements
    - Matching requirements
    - Marketing of the program
    - Management of the program
    - Monitoring of the program
    - Coordination with other federal, state or local programs
    - Other

For organizations that also had TA awards:

14. In what ways has the TA award impacted the organization? (Staffing, organizational management, marketing, business / strategic planning, lending policies / procedures, product / service development, product / service improvement, develop/improve a business or strategic plan, market analysis, portfolio management, risk management, customer services, organizational audit, financial analysis, evaluation, impact analysis, hardware, software, etc.)
15. Ways in which the TA award impacted the organization's ability to serve your customers.
16. Role of the TA award in the ability to receive additional funding from the CDFI Fund or from other organizations.
17. Other TA resources (organizations, programs, and funding sources) available to your organization? Which ones have you used in the past?
18. Thinking more broadly, based on what you know about other CDFIs in your area and nationally, is there a significant need for technical assistance? If so, what kind?
19. Role of the CDFI Fund's TA program in expanding organization capacity and overcoming barriers to organization effectiveness. How can the CDFI Fund best serve CDFI's in this area?
20. What suggestions do you have for improving the technical assistance program? Any ideas for:
    - Restrictions on which entities can apply for an award
    - Certification requirement
    - Application process
    - Application requirements
    - Criteria used for evaluating applications
    - Restrictions on how the award can be spent
    - Reporting requirements
    - Marketing of the program
    - Management of the program
    - Monitoring of the program
    - Coordination with other federal, state or local programs
    - Other
21. Do you have any further comments or feedback about the technical assistance program?

Topic Guide for Other Respondents

CDFI CUSTOMERS (individuals and businesses)

Specific questions will be tailored for each respondent

1. Organization name (for business customers only)
2. Respondent Name, Telephone, e-mail, role in the organization
3. Type of organization. For-profit or not-for-profit? (for business customers only)
4. Organization Age? Number of employees? Number of volunteers? (for business customers only)
5. Describe organization's mission or goals. What other organizations or groups are you partnered with to achieve these goals? (for business customers only)
6. Customers / clients / constituency. (for business customers only)
7. Main sources of funding / financing. (for business customers only)
8. For how long has your organization been associated with or impacted by the work of (FILL IN CDFI NAME)? Please describe the nature of your association / interaction with this institution. (for business customers only).
9. To what extent are the products and services provided to your organization by this institution different from other institutions that provide similar products and services to your organization? Are there other places you could get same products and services? If so, why not go there instead? How did you meet your financing needs before you began working with (FILL IN CDFI NAME)
10. Can you think of changes to you (individuals) or your organization (businesses), or more broadly, to your community, that have come about as a result of (FILL IN CDFI NAME)'s work? Please describe.
11. What has been the impact on you (individuals) or your organization (businesses) of receiving (or not receiving) financial assistance from (FILL IN CDFI NAME)?
12. If this institution did not exist, and no organization similar to it existed in its place, what would be the impact on you / your organization / your clients / your community?
13. Do you have ideas about how this institution could better serve your community? Give me your ideal scenario about changes that could take place that would allow them to have a greater impact on you / your organization / on the community. (for business customers only).

CDFI BOARD MEMBER

1. Respondent Name, Telephone, e-mail, role in the organization
2. Describe role outside the CDFI – workplace, etc.
3. Describe their perception of the CDFI's mission or goals.
4. What other organizations or groups are you partnered with to achieve these goals?

5. Get respondent's perception of the community served by the CDFI: Who lives here? What are the biggest challenges for local residents? What kinds of economic help do people need? What kinds of community development needs exist? What efforts are you aware of to meet these needs? How do you / does your organization interact with these issues?

6. For how long have you been associated with (FILL IN CDFI NAME)? Please describe the nature of your association / interaction with this institution. Role on the board.

7. To what extent are the products and services provided by this institution different from other institutions that provide similar products and services? Are there other places that provide the same products and services? If so, why not go there instead?

8. How does the work of (FILL IN CDFI NAME) impact your community? PROBE ON ALL RELEVANT IMPACTS, SOLICITING DETAILS (e.g., housing units provided, jobs created, educational slots provided, etc.). Are these impacts specific to (FILL IN CDFI NAME)?

9. Can you think of changes to your community, that have come about as a result of (FILL IN CDFI NAME)'s work? Please describe.

10. More broadly, what kinds of products or services make the biggest, positive impact on the community development needs of your community? Please describe.

11. If this institution did not exist, and no organization similar to it existed in its place, what would be the impact on your community?

12. Do you have ideas about how this institution could better serve your community? Give me your ideal scenario about changes that could take place that would allow them to have a greater impact on the community.

CDFI PARTNER ORGANIZATIONS and OTHER ORGANIZATIONS THAT ALSO SERVE CDFI'S CUSTOMERS

1. Organization name

2. Respondent Name, Telephone, e-mail, role in the organization

3. Type of organization. For-profit or not-for-profit?

4. Organization age? Number of employees? Number of volunteers?

5. Describe your organization's mission or goals. What other organizations or groups are you partnered with to achieve these goals?

6. Customers / clients / constituency.

7. Main sources of funding / financing.

8. Describe the community served by both your organization and (FILL IN CDFI NAME): Who lives here? What are the biggest challenges for local residents? What kinds of economic help do people need? What kinds of community development needs exist? What efforts are you aware of to meet these needs? How do you / does your organization interact with these issues?

9. For how long has your organization been associated with (FILL IN CDFI NAME)? Please describe the nature of your association / interaction with this institution.

10. To what extent are the products and services provided by your organization and by (FILL IN CDFI NAME) different from other institutions that provide similar products and services in the target community? Are there other places where clients could get the same or similar

products and services? If so, why don't they go there instead? How did clients meet their financing needs before they began working with your organization or (FILL IN CDFI NAME)?

11. How does the work of (FILL IN CDFI NAME) impact you / your organization / your clients / your community? PROBE ON ALL RELEVANT IMPACTS, SOLICITING DETAILS (e.g., housing units provided, jobs created, educational slots provided, etc.). Are these impacts specific to (FILL IN CDFI NAME)?
12. Can you think of changes to your organization, or more broadly, to your community, that have come about as a result of (FILL IN CDFI NAME)'s work? Please describe.
13. More broadly, what kinds of products or services make the biggest, positive impact on the community development needs of your community? Please describe.
14. If this institution did not exist, and no organization similar to it existed in its place, what would be the impact on you / your organization / your clients / your community?
15. Do you have ideas about how this institution could better serve your community? Give me your ideal scenario about changes that could take place that would allow them to have a greater impact on you / your organization / on the community.

CDFI FUNDERS

1. Organization name
2. Respondent Name, Telephone, e-mail, role in the organization
3. Type of organization. For-profit or not-for-profit?
4. Organization age? Number of employees? Number of volunteers?
5. Describe organization's mission or goals. What other organizations or groups do you fund to achieve these goals?
6. Customers / clients / constituency.
7. Main sources of funding / financing.
8. Describe the community served by (FILL IN CDFI NAME): Who lives here? What are the biggest challenges for local residents? What kinds of economic help do people need? What kinds of community development needs exist? What efforts are you aware of to meet these needs? How do you / does your organization interact with these issues?
9. For how long has your organization been associated with (FILL IN CDFI NAME)? Please describe the nature of your association / interaction with this institution.
10. How does the work of (FILL IN CDFI NAME) impact their target community? PROBE ON ALL RELEVANT IMPACTS, SOLICITING DETAILS (e.g., housing units provided, jobs created, educational slots provided, etc.). Are these impacts specific to (FILL IN CDFI NAME)?
11. Can you think of changes in (FILL IN CDFI NAME)'s target community that have come about as a result of (FILL IN CDFI NAME)'s work? Please describe.
12. More broadly, what kinds of products or services make the biggest, positive impact on the community development needs of their community? Please describe.
13. If this institution did not exist, and no organization similar to it existed in its place, what would be the impact on their community?

14. Do you have ideas about how this institution could better serve their community? Give me your ideal scenario about changes that could take place that would allow them to have a greater impact on the community.

LOCAL GOVERNMENT

1. Respondent Name, Telephone, e-mail, role in the organization
2. Describe community where respondent is located: Who lives here? What are the biggest challenges for local residents? What kinds of economic help do people need? What kinds of community development needs exist? What efforts are you aware of to meet these needs?
3. For how long have you been associated with (FILL IN CDFI NAME)? Please describe the nature of your association / interaction with this institution.
4. To what extent are the products and services provided by this institution different from other institutions that provide similar products and services to your community? Are there other places that provide the same products and services? If so, why do you think people use (FILL IN CDFI NAME)?
5. How does the work of (FILL IN CDFI NAME) impact your community? PROBE ON ALL RELEVANT IMPACTS, SOLICITING DETAILS (e.g., housing units provided, jobs created, educational slots provided, etc.). Are these impacts specific to (FILL IN CDFI NAME)?
6. Can you think of changes to your community, that have come about as a result of (FILL IN CDFI NAME)'s work? Please describe.
7. More broadly, what kinds of products or services make the biggest, positive impact on the community development needs of your community? Please describe.
8. If this institution did not exist, and no organization similar to it existed in its place, what would be the impact on your community?
9. Do you have ideas about how this institution could better serve your community? Give me your ideal scenario about changes that could take place that would allow them to have a greater impact on the community.

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