

# Community Affairs

**at the Federal Reserve Bank of St. Louis**

The Community Affairs Office of the Federal Reserve Bank of St. Louis is pleased to provide *Community Development Financing: Coming up with the Money*, a self-study guide for people with little or no experience in community development. “Community development finance” is a term often used to define projects that help low- and moderate-income individuals and small businesses.

Coming up with the money for such projects typically requires a partnership of private and public funding sources. Funds from banks, government agencies and others often can be combined successfully to develop housing for low- and moderate-income individuals and to fund small businesses. To form a public/private partnership, staff from community organizations, financial institutions, government agencies and other interested parties come together to discuss what each requires for the community development process to work.

Community development consists of three important elements: people, process and money. We will discuss partnerships in Unit I of this guide, explore the business planning process in Unit II and show you different ways of coming up with the money in Unit III. We hope you’ll find this self-study guide helpful and will use it in your community development work.

The Fed’s Community Affairs staff is dedicated to promoting community and economic development and fair and equal access to credit. We work to strengthen the effectiveness of community development practitioners by promoting collaboration and good financial decision-making. Please contact one of the Community Affairs contacts listed on the next page for additional information.



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## Community Affairs Contacts

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Toll-free numbers can be used only within the Eighth District, which encompasses all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

## Self-Study Guide on the Internet

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For an online version of this guide and for updates, go to <http://www.stls.frb.org/caffairs/selfstudy/index.html>. Through this web site, you can also ask questions about the guide, give us your opinion or offer advice to fellow users. Answers to your questions, along with other comments, will be posted online so that we can all become better-educated about community development financing.

For additional copies of this guide, contact Linda Aubuchon at (314) 444-8646 or [linda.a.aubuchon@stls.frb.org](mailto:linda.a.aubuchon@stls.frb.org).

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*A Booklet from the Federal Reserve Bank of New York*



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# Welcome to Community Development Finance

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This guide was created for people who are unable to attend one of the community development finance workshops sponsored by the Federal Reserve Bank of St. Louis. The hope is that users of this guide will be able to familiarize themselves with the basics of the sort of financing that is crucial today for getting needed development projects off the ground. These are the types of projects that might not be undertaken without broad community support, projects such as affordable housing or downtown revitalization.

Among those who are expected to use this guide are members of community-based organizations, development groups, state and local governments and financial institutions. The challenges they face will probably be more difficult than those that confronted their predecessors. Why? Because:

- Government aid is being shifted to reflect new priorities.
- Handouts with no strings attached—whether from a government or foundation—are going the way of the dinosaur. As subsidies decline, community development projects will rely increasingly on debt financing (loans) and equity financing (the sale of stakes in the projects).
- Investors have raised their expectations for a return, whether that return is in the form of dollars or in social benefits. And the return must be measurable—not just a “promise,” a “hope” or an “expectation.”
- Money will have to come from not just one source, as was often the case in the past, but multiple sources. Seven to 10 funding sources for one project are already becoming the norm. Whereas the layering of different kinds of government aid on a single project was once banned, it is now often encouraged.

Leading the charge in such an environment isn't easy, especially for those with little experience in finance or little confidence in their math skills. Not only beginners but veterans of this sort of work are finding that they are overwhelmed at first by all the options available in today's development finance industry. But the task isn't insurmountable. Your commitment to your community will take you a long way in this process. We'll help with the rest.

# Goals of This Study Guide

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## ***To start you on the path to being a leader in community development.***

We will show you the difference between soliciting donations and putting together a package of financing, which might include loans and investments, as well as outright grants and contributions in time and materials. We will also get you thinking about how money moves in your community and about leveraging what you have in order to do more than you think is possible. Those who've done this work for years will be encouraged to get out from behind their desks and look at the challenges in different ways.

## ***To help you understand your community's needs and abilities.***

Is your community's top need a neighborhood park or apartments for the elderly? How about downtown revitalization or decent-paying jobs? We will help you figure out your community's priorities and whether you have a realistic chance of fulfilling them using community development finance.

## ***To help you understand market forces that could buoy or sink your project.***

Knowledge of such things as business cycles and the law of supply and demand can help ensure success for your project. You don't want to open a grocery store in a neighborhood that's still years away from being repopulated. Nor do you want to build a youth center when only adults think it's a great idea.

## ***To identify and develop strategies.***

You'll probably have to develop partnerships and alliances for your project to succeed. Find out what makes for a good or bad partner. Be careful that you don't duplicate others' efforts. Be aware, too, that no matter how good your intentions are, there might be some people who will work against you. Know your detractors and how to deal with them.

**Let's start.**

