New Voices, Fresh Ideas:
The Future of Community Development

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TAPPING NEW SOURCES AND EXPLORING NEW MODELS
FOR COMMUNITY DEVELOPMENT FINANCE

Summary of Conference Proceedings

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Federal Reserve Bank of St. Louis

Louisville Branch

CENTRAL TO AMERICA'S ECONOMY®

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TABLE OF CONTENTS

Tapping New Sources and Exploring New Models for Community Development Finance

Dione Alexander ... 3

Ian Galloway ... 6

Trinita Logue ... 9

Post-videoconference discussion ... 17

*NOTE: This booklet contains executive summaries of the videoconference key speakers. A full summary and videotaped version of the videoconference can be found online at www.stlouisfed.org/community_development.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Dione Alexander—Executive Summary

BIO:

Dione Alexander is vice president of Nonprofit Finance Fund (NFF), Midwest region. NFF is a community development financial institution that has lent more than $200 million. She is responsible for managing and overseeing financial and advisory services throughout the Midwest, and for marketing and fund development activities. Prior to joining NFF, Alexander spent six years as a department executive with the charter county of Wayne, Mich., where she managed economic development and government finance. She also spent 10 years at Comerica Bank as vice president of commercial lending. Additionally, Alexander has served as a business consultant under contract with the U.S. Department of Commerce, the U.S. Department of Defense and Eastern Michigan University. Alexander received a B.S. in business administration from the School of Business and Industry at Florida A&M University and is an alumna of the Graduate School of Banking at Louisiana State University. She has served on various nonprofit boards.

SUMMARY:

We are currently in the "second life" of community development finance. Organizations must move from project financing to platform financing in order to grow and take advantage of leveraging opportunities. In the past, the success of a project had no true correlation to the success of the organization. There was no way for nonprofit organizations to redeploy or leverage assets to the next opportunity, because all resources were tied to individual projects. Stringing together unrelated projects does not make nonprofits stronger. They need to move to a systemic framework that looks like master planning. A forward-thinking nonprofit should ask, "What is the opportunity that we're trying to address?" rather than simply attempting to finance one project at a time. Project financing is a problem; system financing is an opportunity.

Securitization of assets is not bad! The problem is that it's been done poorly; organizations' pride of ownership makes them unwilling to take assets off the books. But they should be leveraged—liquidate seasoned assets, or securitize and monetize them to fund future projects. Packaging assets, swapping between organizations, buying participation from others, selling assets—all of this makes an organization stronger.

Tax credits are neither good nor bad. Although they have largely been good for the industry, they are not sustainable and are subject to political will. The model must be redefined—look at other models of government investment with less limited life. We need more direct investment.

There is a myth that "scale" has to get larger; in reality it has more to do with the repeatability of a project string. Can it be replicated? How do you replicate (not repeat) good projects? Sometimes organizations can't get up to scale because they do not have the necessary equity. "Buy capital" is the regular revenue from operations, a buy of services; it is recurring and repetitive, requiring organizations to do the same thing over and over again. It funds programs but not a shift in strategy. "Build capital," on the other hand, funds an organization's platform for growth. It is designed for sustainability, to leverage opportunities in the long term. It is transformative, a game changer.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Dione Alexander—Executive Summary

"Philanthropic equity" is a new funding model that creates growth capital for nonprofits. It is designed for "builders," not "buyers," allowing nonprofits to create diversified income streams rather than continuing their reliance on old-model grants and contributions. It is designed and structured similar to an IPO; those investing in an organization can see how their contribution is being leveraged.

Organizations need to become collaborative. We've believed for years that the pie is infinitely small. But the truth is that the pie is large, and we have simply sliced it small. We need to begin to think globally, create new partners. Look for alignment on some things with groups you didn't think agreed with you at all. While you may not be completely in tune, you may well be aligned on some discrete projects. And alignment may come on funding rather than ideology.

Be mindful that funding is difficult work. Our return on capital is largely human. We need creative thinking on how to get funded for sustainability.

KEY TAKEAWAYS:

- Organizations must move from "project financing" to "platform financing" for growth and leveraging opportunities. Currently, we are unable to redeploy or shift gears once an individual project is completed because all of our resources are tied to that project.
- Stringing together unrelated projects does not make an organization stronger.
- Nonprofits must move to a systemic framework that looks like master planning.
- Securitization of assets is not bad; the problem is when it's done poorly. Organizations must relinquish pride of ownership in assets; need to move them off the books—securitize, monetize, liquidate them and use the funds for future projects.
- Tax credits are neither good nor bad. They have been very helpful in our industry, but this is not a sustainable model; it has to be redefined.
- Scale does not necessarily have to do with getting larger. It has more to do with the repeatability of a product string. You can't continue doing the same things and expecting different results. Organizations need equity to grow business to scale.
- "Buy capital" is revenue from a buy of services; it requires organizations to be repetitive. "Build capital" is periodic, for a purpose. It allows organizations to leverage opportunities in the long term. It is transformative.
- Philanthropic equity is a new funding model for builders; it allows organizations to focus on growth and sustainability.
- Nonprofits need to be collaborative and strategize around finance. New partners and financial sources may be global and may have seemed to be in opposition to you. They may not be completely aligned, but you may be able to collaborate on some discrete projects.
- The pie is NOT infinitely small. It is actually quite large, but we've been slicing it small.
- Funding will always be difficult. Be creative and think broadly about all the ways to get the resources you need.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Dione Alexander—Executive Summary

MEMORABLE QUOTES:

"It's not about how clever we are about the numbers. The end goal of all the work we do has a person attached to it. You're not playing with a balance sheet; you're affecting someone's life."

"We have to be very mindful in our work, that it really is—at the end of the day—'How do we make healthy, holistic, better communities, block by block, person by person?'"

"Business school training doesn't give all the answers. The answers for how communities get better are invested in the people that live there, that wake up every day saying, 'How am I going to get my child to school?' 'Is the school going to be a quality place?' 'Are there going to be fresh groceries on my corner?' 'Are we going to have appropriate banking services?' 'Will I live in a place that I can be proud of?'"

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Ian Galloway—Executive Summary

BIO:

Ian Galloway is an investment associate at the Federal Reserve Bank of San Francisco. His primary responsibilities are with the Center for Community Development Investments, and he assists with the publication of the *Community Development Investment Review* and the center's working paper series. In 2009, Galloway authored "Peer-to-Peer Lending and Community Development Finance." He has previous experience in management consulting, community development finance and social enterprise development. Galloway holds a master's degree in public policy from the University of Chicago and a bachelor's degree in political science and philosophy from Colgate University.

SUMMARY:

In today's world, we collect a lot of information. And we need to find better ways to communicate this information to the public. Technology can help.

One example is to create a community development finance/CDFI app for smart phones that could alert individuals to projects in the community, creating branding and increasing awareness of the community development industry as a whole.

Another possible use of this app would be as a conduit for "citizen journalism." Individuals could use it to commit money to the rehab of specific properties in their community. Which leads to another benefit of technology—the frictionless transfer of money.

Transaction costs of investing and transferring money have decreased so much that it has enabled citizen participation in community development projects that was never possible before. Kiva is a great example of this, creating a platform that connects individual investors in the developed world to individual entrepreneurs in the developing world. Just a few years ago, the transaction cost of contributing a small amount of money to someone in another country would have exceeded the benefit. But technology has changed those economics and made this type of investment possible.

This is more broadly called peer-to-peer lending; its basic concept is simple. Borrowers post their loan request on a peer-to-peer lending site, providing basic financial and personal information as well as the purpose of the loan. Then individual lenders ("investors") underwrite the loan request. If the loan is funded, investors receive a pro-rata share of the principal and interest payments over the life of the loan.

Peer-to-peer lending can benefit domestic borrowers, too, and Kiva has moved into this market. Their business model works by investors recapitalizing a microfinance institution that has already made the loans—a little less compelling than lending directly to the borrowers, but the reality of how this type of lending works. In the U.S., CDFIs could take on that intermediary microfinance role, continuing their current lending with individuals helping to recapitalize them so they can continue to lend in the future.

There are some challenges for CDFIs in using this technology, including:

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Ian Galloway—Executive Summary

1. Loan size and terms—CDFI loans are usually for real estate; peer-to-peer loans are generally consumer loans capped at $25,000. A platform is required that can solicit individual investment sufficient to help fund a larger loan.
2. Regulatory issues—Peer-to-peer lending is not regulated as lending but as securities trading—a significant impediment to the growth of this industry. The GAO will study the regulatory framework of peer-to-peer lending and produce a report in the first quarter of 2011, providing suggestions on overcoming some of those issues.
3. Investor sophistication—While peer-to-peer lending allows individuals to participate in loans, there is a downside—people participating in deals that they don't understand and making poor financial decisions. A sophistication threshold should be established.
4. Fraud/potential for fraud—There is no way to verify the data provided on peer-to-peer sites, to know whether individuals or even CDFIs are legitimate. This issue needs to be addressed.
5. Lack of knowledge—Many people don't know what community development finance is or what a CDFI does, making it difficult for CDFIs to shift their focus from institutional investors to individual investors to tap this new source of capital.
6. Inability to sell community development securities on these sites—CDFIs are currently prohibited by the FCC from selling loans on a peer-to-peer lending site. So if they want to get a loan off their balance sheet, they can't.

According to a recent study, there is $120 billion of untapped individual impact investor capital available. The problems with accessing it are transaction costs and providing access to information—individuals want to know about the impact of their loans and how their money is used. Technology can definitely help provide that information.

KEY TAKEAWAYS:

- The International Data Corporation estimates creation of 1,250 exabytes of new digital information in 2010—enough to fill 7.8 billion iPods.
- Collecting data is one thing; communicating it to the public is entirely another. CDFIs do a good job of collecting information, but it is usually unavailable to the public, shared only in an organization's annual report.
- We need to share information. Technology has improved access to information and provides for frictionless transfer of money.
- Because of technological advances, we have the opportunity to tap into a huge amount of money from individuals—according to one study, $120 billion.
- Technology can be used to bring new capital to the field, especially via peer-to-peer lending (e.g., Kiva platform).
- Challenges to CDFIs using peer-to-peer technology include loan size and terms, regulatory issues, investor sophistication, potential for fraud, lack of knowledge of CDFIs by the public and FCC restrictions.
- Technology is radically democratic. It returns community development to its roots, back to community organizing, allowing individuals to invest in their own communities and have an ownership stake in the outcome.

MEMORABLE QUOTES:

"Transaction costs of investing and transferring money have gone down so much that you can see citizen participation in community development projects that was never possible before….Imagine the cost 20 years ago, or even ten years ago, of contributing

Ian Galloway—Executive Summary

$25 to a potter's business in Kenya from the U.S. The cost of just getting that transaction done would exceed the benefit. But technology has changed the economics and allowed people to participate in these types of projects in a way that was never possible before."

"We don't have to go international to find worthy projects that individuals in the U.S. would be interested in funding."

"Peer-to-peer lending is not regulated as lending; it's regulated as securities trading. And that is a totally different animal from a regulatory standpoint. It's been a significant impediment to growth of this industry as a whole and it will be an impediment to CDFIs moving into this industry, despite the compelling story that we all have for doing so."

"According to a recent study, there is $120 billion of untapped individual impact investor capital out there, the vast majority of which could be re-routed to the CDFI industry. Even if we got a tiny slice of that, it would be a game changer."

"Technology allows individuals in their own communities to invest in themselves in a way that was never possible before."

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Trinita Logue—Executive Summary

BIO:

Trinita Logue is the founding president and CEO of IFF (formerly Illinois Facilities Fund). A nonprofit community development financial institution with assets close to $200 million, IFF provides real estate finance, development and consulting to nonprofits in Illinois, Indiana, Iowa, Missouri and Wisconsin. Logue serves as a director of First Nonprofit Trust Cos., a member of Northwestern University's Kellogg School of Management Public and Nonprofit Advisory Committee, a director and member of the executive committee of the Donors Forum of Chicago, a member of the Attorney General's Charitable Advisory Committee, a member of the Governor's Early Learning Council and a member of The Chicago Network. In past roles, Logue was assistant director, Chicago Community Trust; director of the City of Chicago's North Loop Theater District Project; and executive director, Arts Council of Jacksonville, Fla.

SUMMARY:

Similar to other industries, CDFIs are very different from each other. They are established and grow up around particular needs and opportunities, but should respond to other things as communities and needs change. People should push CDFIs to be innovative and try new things to expand their impact.

IFF works in the human services sector broadly (charter schools, affordable housing, YMCAs, services for the mentally ill, domestic violence, child abuse programs). Most IFF borrowers work on a human services revenue model; they are facilities- and labor-intensive, and their highest costs are people and space. While technology and new service models have reduced the scale of real estate holdings in the human services sector, the need for real estate, facilities, vehicles and equipment will never go away. It is an endless market.

Recent state budget crises have reduced funding for services and therefore revenues for nonprofits that provide those services. Some cases are more extreme than others; each state is different. Many current projects are not major growth projects; they're small. Nonprofit executives are smart and most of them today are cautious about expansion—not because there's no demand for their services, but because of the economy. Many executives have faced up to the realities of the recession.

While nonprofit corporations are collaborating more, figuring out how to help each other, their executives have become hardened to social policy changes, ruthless about planning for budget cuts so they can act quickly when necessary—staff cuts, refinance/sell property, use endowment funds more strategically, close programs more quickly, and use finance more strategically in every possible way.

More and more often, executives are involved in advocacy as a core component of their work. They track and participate in legislative efforts and in educating leaders. They think about politics and funding when they build their board of directors, working to get the "right" members and demanding more from the board.

Technology is central to the work of all nonprofits, resulting in better research and data collection, easy analysis of trends, and better loan proposals and annual reports.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Trinita Logue—Executive Summary

CDFIs (including banks, credit unions and other financing entities) are now part of the continuum of financial services for community development. They are able to do their work because of incentives for conventional banks to invest in them, usually through subsidized capital, which they also get from government and foundations. And President Obama included additional lending funds for CDFIs in his proposed budget.

CDFI lending is up as banks contract due to falling real estate values. National banks are investing in CDFIs more than ever, and regional and local banks are acting customer by customer. Nonprofit executives are looking at all of these funding opportunities.

A new challenge is a conflict between federal programs and policies, and state funding and policies. Billions of dollars will be coming from Washington for health centers, charter schools, small business lending, transit-oriented development, energy conservation projects, healthy foods in food deserts, child care centers and Promise neighborhoods. These are great opportunities for CDFIs and nonprofits.

Conventional financing will always be important in community development, but different parts of the continuum require different financing. The CDFI industry is ready to meet those needs, but more of them operating on a sustainable level are needed.

KEY TAKEAWAYS:

- CDFI financing is used in many ways; they need to be pushed to do different types of business that can expand their impact.
- IFF works in the human services sector; their borrowers work on a human services revenue model and are facilities- and labor-intensive.
- Technology has changed some things in the human services sector, but not the nature of the businesses funded by IFF—it's an endless market and an endless market gap.
- There is very high demand for funding, but not for major growth projects—lots of small projects.
- Nonprofit executives have faced up to the realities of the recession and are cautious about expansion because of the economy. They are becoming more business-savvy and sophisticated. Data and performance analysis are regular parts of their jobs.
- Nonprofit executives are getting some things right. They:
  - perform more advocacy as a core part of their work;
  - track and participate in legislative issues;
  - work on getting the "right" board members, those who can affect policy;
  - are collaborating more than ever before;
  - have become hardened to social policy changes and act quickly when necessary.
- The strongest nonprofits plan, act quickly when trouble comes and use funds strategically.
- Small banks and credit unions can be CDFIs.
- CDFI funding is up; they get subsidized capital from banks and government, and major banks are making more and larger investments in CDFIs.
- Nonprofit executives are shopping around to check out all available funding opportunities. They don't just go to their "regular" funder.
- Washington policy agendas are in conflict with policy agendas in many states.
- State economies are not supporting operations as in the past due to budget pressures.
- CDFIs need to grow. New opportunities provided by the current administration may change over the next few years, and there will be more state-based tax cuts.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Trinita Logue—Executive Summary

- Billions of dollars will be coming from Washington for community health centers. There will also be growth in:
  - Charter schools
  - Transit-oriented development with an emphasis on disinvested communities
  - Energy conservation projects
  - Healthy foods for food deserts
  - Child care centers
  - Promise neighborhoods
- We all share the responsibility for getting needed community development work done.
- There will probably be more state-based tax cuts and program cuts, but there are many movements that will not be repressed.

MEMORABLE QUOTES:

"There are so many challenges confronting state and local governments these days, and there's excess housing, surplus school buildings, state institutions closing....We want to be present while these things are being figured out. And we want to try to direct the allocation of resources that have already been paid for once by public dollars back to maximum public benefit."

"Together we have all strengthened each other. This is what is meant by community."

"The CDFI model is not a corporate definition. It's a mission definition of using finance to do community development."

What are attendees saying?

Can you talk a little more about how to structure philanthropic equity?

"The average size of a foundation program grant is actually relatively small. It's generally a year-long grant under $60,000. That's really not enough to seed a capital deployment strategy. So, we're looking at going to high-bulk individuals and foundations that want to invest on a large scale. That's usually something with a few more zeroes behind it. That money does not come from their program grant side; it usually comes from their investment side in the form of either PRI (program-related investment), social impact investing and mission-related investing (it's got a lot of names). We then work with you to structure a prospectus about how you will use those funds and leverage them to get that annual compound growth number that we talked about and that leveraging factor. What does the business or enterprise model look like that allows you to deploy those funds, leverage them, and return them in an investment model? Very different from a loan model where there's no return implied. In those cases I've given principal and interest, but from an investment model. So we work with you to develop the methodology to scale the organization. We will work with your funders or help you go out and find some investors who are willing to invest in that model. Some names that you might recognize that we've worked with include Global Giving, Donors Choose, Root Capital, Vision Spring, Yes Prep, the College Summit and Project Help. (We do have a report that we just published on our philanthropic equity program, which can be found online or through the resources at the Fed.) These are organizations that said, 'We have a model that we believe we can scale and replicate.' They were either taking it statewide to other states, or investing in new ways of delivering those services, which required some level of equity. And what does equity buy? It buys you staffing in a service business. We tend to wait for the opportunity and staff up. In an investment model, you have to staff up while the opportunity's coming. You can't wait and say, 'How will this look and who will we staff?' So, it buys you staffing, it buys you technology, it buys you a facility (if you need it) for the purpose of leveraging not just your regular facility for administration. In the case of Yes Prep, they were moving to campuses in different states using the very successful model that they had already built upon in Texas. So the equity piece allows you to grow into the revenue model just like equity for any for-profit business. And that often comes from philanthropy—high-net-worth individuals who want to do something different than a loan, want to do something different than the program grant, want to see real returns, and want to be closely associated with the outcome." *(Alexander)*

With the current recession, we know there are few good alternatives to trying to get higher net return on your investment. So peer-to-peer lending may be an option. What do you think is the long-term picture for peer-to-peer lending?

Peer-to-peer lending today is actually a pretty attractive investment opportunity in a lot of ways. If you visit prosper.com, for example (they're the leading for-profit peer-to-peer lending site on the internet), you can invest in loans and earn a return in excess of 20 percent on your investment. Now that's going to be a risky investment for sure, and certainly not an alternative to investing in a CD or in a low-yield savings account. But if you are interested in investing and earning a higher return than is otherwise available in the market, peer-to-peer certainly provides that opportunity. Keep in mind, though, that all the things I mentioned before still apply in terms of the potential for fraud. And I can't emphasize enough that there's a social component to this that is attractive to a lot of people, but be leery. Don't make these investments lightly. You can lose your money doing this just like you can doing anything else. Just because somebody puts up a cute picture up of their family or dog and has a compelling story, that's not an adequate substitute for creditworthiness. So, that's just a word of caution. In terms of the long-term viability of the industry, I think a lot of that comes down to the regulatory environment and whether or not there is a shift. Right now I'm not sure that the industry is sustainable

if it's regulated as a securities trading business. For me, that's the biggest constraint to growth. But I think that the concept is right. It sort of takes us back to an original conception of lending, which is face-to-face. You go into your local bank or your local credit provider, you make a case for why they should make a loan to you, and they underwrite you. We've gotten away from that. We've gotten much more into an algorithm-based, risk modeling-based lending system that tends to leave some people out because they don't fit the profile that the algorithm has produced for them. Peer-to-peer returns us to our lending roots and allows some people—who otherwise wouldn't be able to by going to conventional sources—re-enter the market and get credit." *(Galloway)*

Our nonprofit has an economic development mission to grow the life science industry in Memphis. We have projects with good business plans, some capital and tax credits. But lenders will only do credit enhancements or guarantees for loans, and real estate doesn't seem to be considered as good collateral anymore. Any ideas about how we can find credit enhancements for loans?

"I'm going to go back to your foundation partners for a moment, and ask you to reconsider, understanding the kinds of capital you need and how to ask for it. That is a place where communities can get together with their local banking partners and put together credit enhancement pools that actually strengthen the loan request and act as incentives. Those are places where foundations can be largely helpful because it's 'one to the many' and not 'one to one' of putting together enhancement pools. That is a place that you can do some advocacy at your state level on credit enhancement. This is a different way to play with foundations other than saying, 'I need the $60,000 program grant. But I need to leverage more funding and I need to get an incentive to banks and CDFIs to give me that loan.' Because it is a fairly hands-on, intensive kind of lending and you don't always have the collateral. At NFF, we're not largely collateral lenders. But when we take collateral, who wants to be the evil villain who goes and repossesses the playground equipment? Nobody wants to do that. So we really often need to have that credit enhancement from another source to make the loan work." *(Alexander)*

"There are two CDFIs in Memphis. Enterprise Corp. of the Delta, based in Jackson, Miss., serves Memphis. Another is Pathways. I think they only do small-business lending, but I'm not sure. They may be worth talking to, just as colleagues." *(Logue)*

Could you expand on your statement about scale and not replicating activities and not just growth? While replication is good, we also need to recognize that just because you've done something in the past doesn't mean you should necessarily continue to operate business as usual. How can you achieve scale through replication without just doing business as usual?

"The reason that I say scale isn't always about growth is because many folks aren't in a growth mode just as a result of the recession. Scale can happen in contraction. It's really not about how many more units you do, but how you do those units well. Some of us need to get to scale by right-sizing. We were in some lines of business that we shouldn't have been in anyway because we were chasing grant dollars. We're all guilty to a certain extent. We got out of our bandwidth. Some of us need to scale back to the core business and make that profitable. So that's why scale is not always larger. Relative to replication, a lot of times what we're not doing is scenario planning. We're not far enough out on the horizon to be able to risk return opportunities and weigh them. We do budgeting and planning, but we don't do scenario planning. So we might still be funding into a model whose life cycle is over. So if we're in health care, we might still be doing prevention and awareness, and the next big chunk of money is coming in something in education. So you do need to have a long enough time horizon on scenario planning to know what you should be doing next. But the replication piece is

important, because if it is a good program and it's working, it's unlikely to go away. If you're still solving a problem and you're doing it well, there may be an opportunity for you to replicate that into a more profitable margin. And one of the things that Ian (Galloway) is talking about in the use of technology is that it brings you different partners in replication. So you may be able to sell, franchise, share your knowledge with someone else. So if someone's doing something in Evansville that works, why can't it be done in Kansas City if the general dynamics are right? And you can do some of that through technology. Everything that we do we don't have to make. One of the challenges that we've suffered is that, as an industry, we want to keep making it. If somebody else has already made it, it's OK for us to use it. So that's where the replication piece comes in and that's where we do a lot of learning. There may be something that someone's doing internationally, whether it's with mobile phone apps and smart phones about how they can deliver health care, or how they do banking services. In developing countries, most of the banking services are done with smart phones, not one-on-one teller transactions. Is there something in that that you can use? That's the idea of replication. What do we have that we do well that we could become a stronger, more stable platform by selling more of, or sharing that service with someone else? Which is very different than, 'Are we doing the same things over and over?' Because that speaks to scenario plans. Because if you're trying to do green and you're just jumping on the bandwagon now—well, a little late. So we need to be in advance of that by knowing our communities. Because, basically, we're here to serve a community need. So you know what your communities need. But let's not get back into the cycle that we need a new trick pony every time there's some money out there, saying we should do that because there's money. Do what you do well, that your community needs. And find a way to do it profitably." *(Alexander)*

You were talking about getting people to invest in your nonprofit in an equity model. Traditionally, in a for-profit setting, an equity model comes with some kind of share of stock or something else, which of course is not allowed in a nonprofit organization. So how do you structure an equity return scenario for an investor in a nonprofit model setting?

"We do have an IRS ruling on one of the products we've created called a 'segue product.' So it's passed muster. So you're not actually selling a share, per se. And not all investors want the upside potential, although some do. When we say 'equity,' we're really saying 'equity-*like*' because you're not getting an ownership share. You're usually getting either the stated social return or a real cash return on your investment. But you're not taking on ownership; it's structured as an equity-like participation. So you're not selling off 15 percent of the housing corporation to someone else in exchange. It serves as that base level of growth capital without selling ownership. There are social investors who are taking real equity positions in social mission organizations that are for-profit. One of the things that I didn't say but should, since we're trying to provoke thought, is that everything we are doing in this room, somebody else is probably doing in a for-profit model, and they're asking/requiring a lot more than we are. Stop giving it away if you can. Somebody is doing mental health and they're asking for full-cost reimbursement for it. Someone is providing low-income housing and they might not care as much about the people in the community as you do. Somebody's providing grocery service; may not be good, may not be talking to people about healthy lifestyles, but they're doing it. And they're doing it at full cost because they know their return and know how to run that business. You know how to run your businesses very well. But we underestimate our cost and we don't ask for what we need to actually fund our business." *(Alexander)*

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

What are attendees saying?

Do you fund, or do you get funding requests from, social entrepreneurs or for organizations that do redevelopment? How does your evaluation consider different types of business models?

"Probably physical redevelopment projects? The answer for us would be yes, we get loan applications from all of those areas of the nonprofit sector. And there's a lot of standard underwriting that has to be done on any loan request. But then we certainly also have tailored underwriting for certain kinds of businesses or activities. We could get you details if you want to know more about our underwriting." *(Logue)*

"We also lend to social entrepreneurs and I do think they're a huge part of the future of how we do business. And it's very specific and it's just like writing to any other entrepreneurial development, whether an SBA model or venture capital model. What is it that you've got that you're putting out there that you think the world wants? And how does it meet the social need? And how are you going to make money on it? You've got to be doing your core business (e.g., mental health and wellness) at the top of your game before you go into a social enterprise mission (e.g., Starbucks in your facility). Because you can't subsidize both businesses. Somebody's got to be minding the shop. So we look at the social entrepreneurs the same way that a bank would look at any other entrepreneur. What's the plan, how do you make money on it? It's great that you can help people, but does it make sense?" *(Alexander)*

Ian (Galloway) mentioned that there were several CDFIs that are currently sharing information through technology. Do you know who they are? And how could you interweave into that platform?

"When I made that comment, I was actually referring to CDFIs participating on peer-to-peer lending sites. So, not so much sharing information. But I'm sure that CDFIs share an abundance of information that I'm not aware of, whether they use technology or not. But the specific question goes to the point that I made about the participation on the peer-to-peer lending site. The site is MicroPlace. It was spun off of Calvert Foundation, which is based in Chicago and was ultimately purchased by eBay. So it's owned and operated by eBay now. And MicroPlace is fundamentally different from Kiva in the sense that you can go on Micro and make investments in institutions that then make investments in other institutions, which then make loans to small-dollar entrepreneurs. So it's significantly more intermediated, relative to Kiva. But it does operate in the U.S. ACCION is one example. They're a microfinance lender operating predominantly in the southern U.S. and the model works essentially as follows: You invest in Calvert Foundation. Calvert Foundation, backed by PRIs and other foundation capital from additional foundations, then makes loans to microfinance institutions like ACCION. Then ACCION goes out and makes loans to small-dollar borrowers in Texas, Louisiana and other states in the southern U.S. So there are CDFIs currently participating on peer-to-peer lending sites, and a good example of that is MicroPlace. And Kiva has also moved into the domestic market. Opportunity Fund, which is a CDFI based in San Jose, was the first domestic CDFI to participate on Kiva. I believe ACCION has also recently joined Kiva as well." *(Galloway)*

***(From a CDC that is able to get grants and investments in real estate)*—We have capacity as a developer *(suppose real estate)*. What approaches could you recommend to finding more substantial sources of equity? Could a CDC real estate developer also adopt an equity-type platform?**

"Interesting question. My immediate answer is yes. And I think some of the challenges depend on how that real estate portfolio was originally funded. And the tale on it. Because we know some of the projects are 15- and 30-year projects. But I think any organization can do some level of equity funding, even if it's not through one of these products that we talked about. Go back to my original comments: We're funding the platform these days and not so much the project. So, I think, yes. For real estate developers

that have large holdings, the question really becomes, 'How do you monetize some of that and take it off the balance sheet if it's still on there?' Because you're probably sitting on your own equity. Now granted, do we have tons of investors that say, 'I'd like 100 units in the inner city' (the challenges of managing those!)? No. But are there markets out there for seasoned properties that you can liquidate? Yes, there are. So, first look at your own equity. But I do think you can do some philanthropic equity with housing." *(Alexander)*

Tapping New Sources and Exploring New Models for Community Development Finance

Local Discussions – Louisville

NOVEMBER 10, 2010

What are attendees saying?

COMMENTS FROM ATTENDEES:

“A credit enhancement pool for nonprofits is needed in the local market. I would like to continue discussion with key stakeholders.”

“Too many nonprofits are competing for the same dollars. How do you evaluate an organization’s mission and capacity?”

“Nonprofits need a sophisticated board of directors who understand the business model.”

“There is enough work and need for everyone. You just need to know the organization’s niche.”

“There is a need for a database for organization profiles when looking for partnership/collaboration opportunities.”

“Need for additional CDFIs in the local market.”

“Peer-to-peer lending in low-income communities is usually done through the barter system instead of an exchange of cash.”

“Social entrepreneurs have a role in community development.”