

Community Development Financial Institutions (CDFI) 101

The Intersection of Mission-Based
Finance and Social & Economic
Justice

Our Team Today

- MODERATOR: David Adame, NCRC Board Member
- SPEAKERS:
 - Annie Donovan, former Director, U.S. Department of Treasury, Washington, DC (INSERT CURRENT TITLE)
 - Amy Shir, President & CEO, LHOME, Louisville, Kentucky
 - Jason Friedman, Principal, Friedman Associates

Why are we talking about CDFIs?

- Why are CDFIs needed?
 - Response to market and policy failures: *institutional racism, redlining, predatory lending*
 - Tool for economic justice, pairs well with other community development strategies
- Why CDFIs have strong bipartisan support
- Should you consider starting a CDFI?



March 11-13, 2019

Washington Hilton Hotel
Washington, DC

THE **JUST** ECONOMY CONFERENCE  2019

What is a CDFI?

- Private financial institutions 100% dedicated to delivering responsible, affordable lending to help low-income and other disadvantaged people and communities join the economic mainstream.
- Finance opportunities that are credit-worthy but are beyond the reach of traditional sources credit.
- Appear to make riskier loans, yet their financial and portfolio performance are on par with conventional banks.
- Provide development services - entrepreneurial education, homeownership counseling, savings programs, and financial literacy training.



What a CDFI is **NOT**

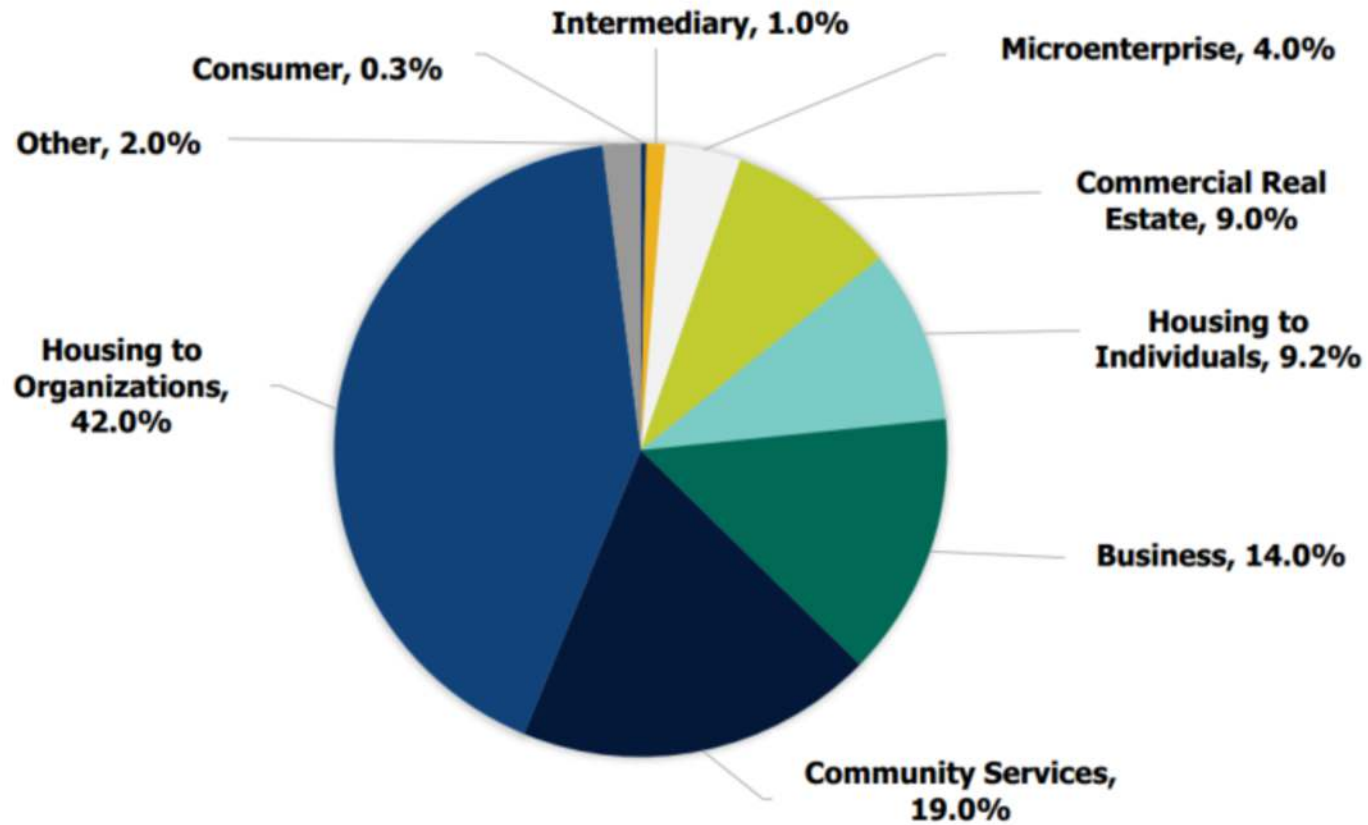


- *A program.* It's a nonprofit financial institution with performance standards and compliance requirements.
- *Another Acronym to remember.*
 - The CDFI Fund is a funder.
 - Being a CDFI represents a mindset, a purpose, a mission.
 - A certified CDFI means that your mantra is *capital follows mission*.

Types of CDFI Financing

- Affordable Housing
- Commercial Real Estate
- Consumer Finance: Alternative to Pay-Day Loans
- Education: Charter School Financing
- Healthcare: Community Health Centers
- Healthy Food Financing: Food Deserts
- Nonprofit Organizations (including other CDFIs)
- Residential Mortgages & Home Repairs
- Small Business and Micro-enterprise
- Venture Capital

Loan Fund Lending Sector Concentrations*



* From OFN's Loan Fund members based on 2016 data; total 2016 financing = \$16.4 B; outstanding = \$37.9 B; credit unions and banks report categories to regulators in different categories.

We Believe in Community | OFN OFA

Why Become a CDFI?



- Access to financial assistance from the CDFI Fund.
- Enhanced ability to raise \$ from banks, foundations, corporate donors, and government.
- Reinforces the **commitment to serving low and moderate-income communities.**
- Provides opportunities to enhance your local reputation and provide a competitive advantage over other lenders.

What is CDFI Certification?



- The CDFI Fund designates organizations that provide financial services to low-income communities and to people who lack access to financing.
- Only *certified* CDFIs are eligible for funding from the CDFI Fund for debt, equity, and LLR.

Certification Tests

The organization must, *at the time of application meet 7 tests:*

- ✓ Legally exist *and*
- ✓ **Primary mission of community development**
- ✓ **Financing entity**
- ✓ **Target market**
- ✓ **Development services**
- ✓ **Accountability**
- ✓ Non-government entity



10



What Should An NCRC Member Consider When Thinking Of Becoming A CDFI?

The Path to Creating a CDFI



Is providing safe and affordable capital necessary to achieve our mission?



What does mission-driven success look like?



Do we have internal capacity/intellectual capital to take this on?



What level of investment is needed to create a loan fund based on best practices and industry standards?



Do we understand what it means to become a self-sustaining nonprofit financial institution?



What kind of governance structure will we require?

March 11-13, 2019

Washington Hilton Hotel
Washington, DC

THE **JUST** ECONOMY
CONFERENCE  2019



Let's Take it to the Street!

The Louisville Housing Opportunities and
Micro-Enterprise Community Development
Loan Fund, Inc.

Louisville Lacks CDFI Investment

- Only three CDFI's operating in Louisville (metro 1 million people): CVC in Lexington, Metro Bank (minority-owned serves African American faith-based organizations).
- LHOME, only nonprofit CDFI headquartered in Louisville.
 - Finance small business and home ownership to residents of West Louisville (African American neighborhoods) and other LMI census tracts.
 - Historic redlining, disinvestment, predatory lending.
 - 15% homeownership rates in many neighborhoods.

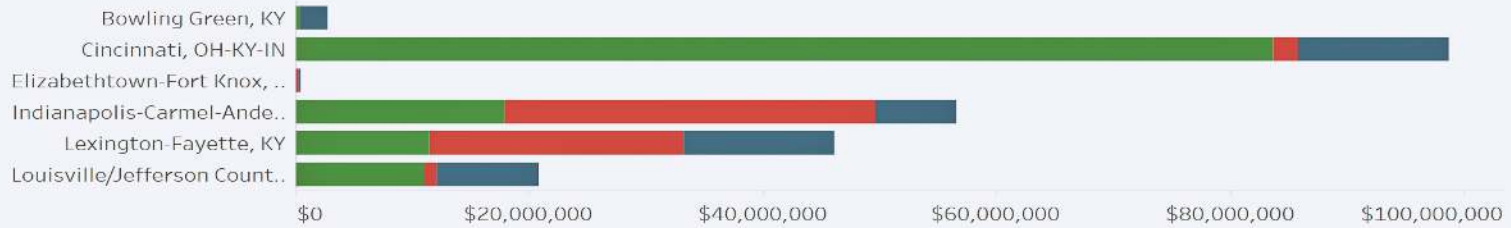


**Community
Development Financial
Institution (CDFI)
Investments**

**New Markets Tax Credit
(NMTC) Investments**

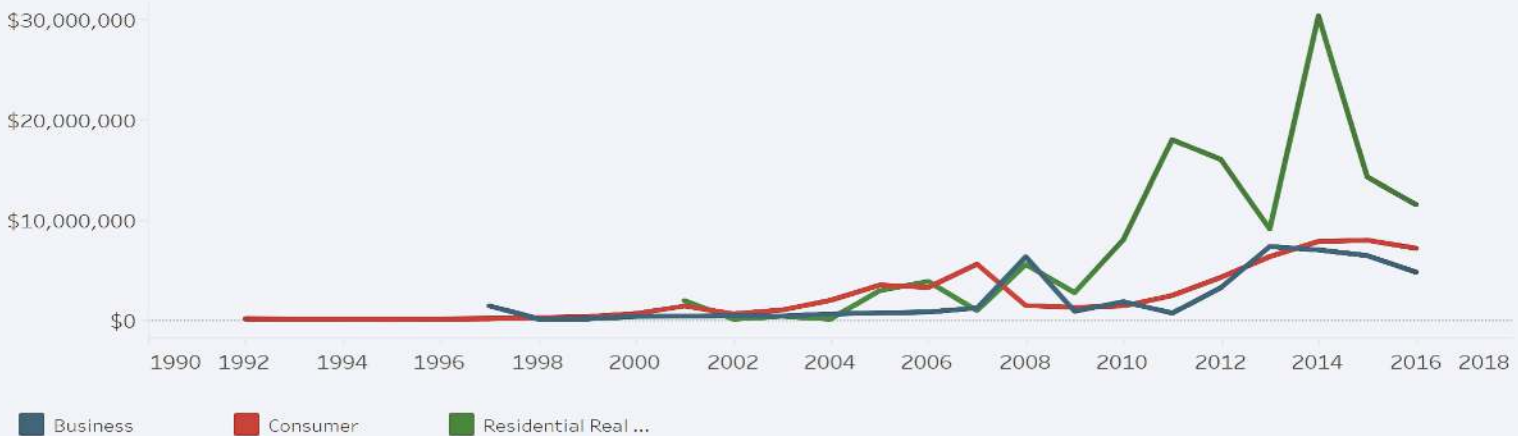
**Low Income Housing
Tax Credit (LIHTC)
Allocations**

CDFI Investment



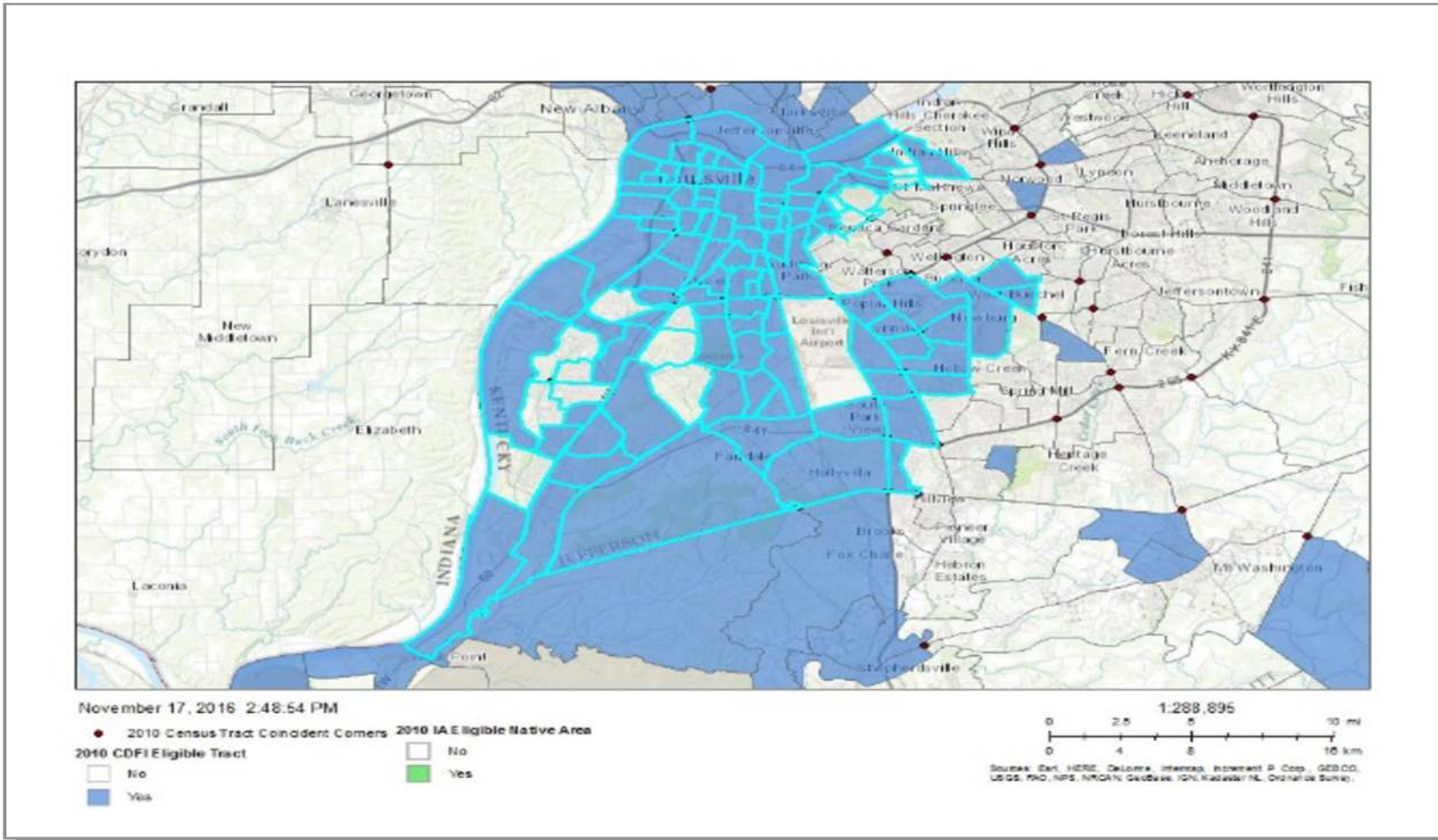
■ Business ■ Consumer ■ Residential Real ...

CDFI Investment Over time



■ Business ■ Consumer ■ Residential Real ...

LHOME Investment Area



LHOME at a Snapshot



- Mission
- Products and Services
- Capitalization
- Governance
- Current Loan Activity
- ***Fair Lending for a Better Louisville***



The Path to Certification

A CDFI Grows in Louisville!

The Story (in brief)

- Two well-established nonprofits walk into a coffee shop....
- It took two tries to get Certified, but we did it!
- Why two?
- Let's make some loans!
- Opportunities & Challenges



Plans for Growth

- Home Inspection Loans – under development
- Credit Builder Loans – under development
- Loan participations for affordable housing creation.
Grow balance sheet.
- Development Services – Business coaching, financial education, credit building, homeownership counseling.
- Current funding opportunities: The Community Foundation of Louisville, PNC Bank, J. Graham Brown Foundation, First Financial/MainSource Bank, Metro Louisville. Mixture of low-interest loan funds and grants.
- Goals: Within 5-8 years loan \$10 mm; generate \$300k operating funds.



CDFI Advocacy

- Starting a statewide CDFI Coalition to attract large regional and national foundation investment.
- Stay abreast of bank CRA ratings, exam dates, mergers & acquisitions and need for CRA investment.





Let's Take Your Questions!

