

Community Development Finance: Innovative Paths to Capital During the Credit Squeeze

By Angelyque Campbell and Jennie Blizzard



Photo: Corbis

What may have begun as a subprime mortgage issue has had further-reaching effects. While it is common to hear about low consumer confidence, high unemployment rates and a volatile stock market, the role that the credit squeeze will have on community development brings some challenges as well as opportunities to create and maintain flexible funding strategies.

Historically, community development practitioners have contended with limited resources but, over time, Community Development Financial Institutions (CDFIs) have played an important role in filling funding gaps. CDFIs are financial entities that provide credit, capital and financial services to underserved markets and populations. They have used unconventional strategies to support job creation, affordable housing, community facilities and banking services.

The current contraction of credit markets will require more innovative ways of serving lower-income communities. CDFIs in the Fifth District have implemented effective strategies aimed at keeping access to credit and capital open during the credit crunch. Going forward, liquidity constraints may jeopardize future financing for underserved communities.

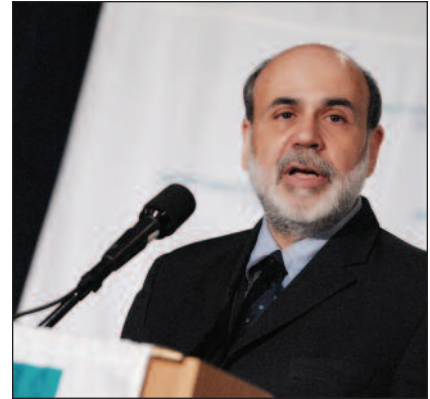
What Happened?

Before one explores how CDFIs are weathering the market downturn, it is important to understand what contributed to the meltdown. According to “The Credit Crunch of 2007-2008: A Discussion of the Background, Market Reactions and Policy Responses,” by Paul Mizen, several factors contributed to a credit crunch. For one, financial products such as mortgage-backed securities (MBSs) introduced greater complexity and weaker underlying assets based on subprime mortgages.

What is the connection between credit markets and home loans? Subprime residential mortgages were pooled and packaged as collateral and sold on the secondary market as mortgage-backed securities. MBSs are bonds. Bond holders are paid from mortgage payments, which fund MBS pools. As long as homeowners paid their mortgages, the cash flow into the pools remained strong and investors/bondholders profited, thus keeping the cycle of subprime lending moving.

The situation changed when housing prices across the country fell. This sudden drop was not accounted for in the MBS models used to assess risk. Declines in house prices triggered increased defaults in the subprime market and possibly the current mortgage meltdown. Recent market events sent investors scrambling to reappraise the risks associated with the high-yielding residential MBSs and collateralized debt

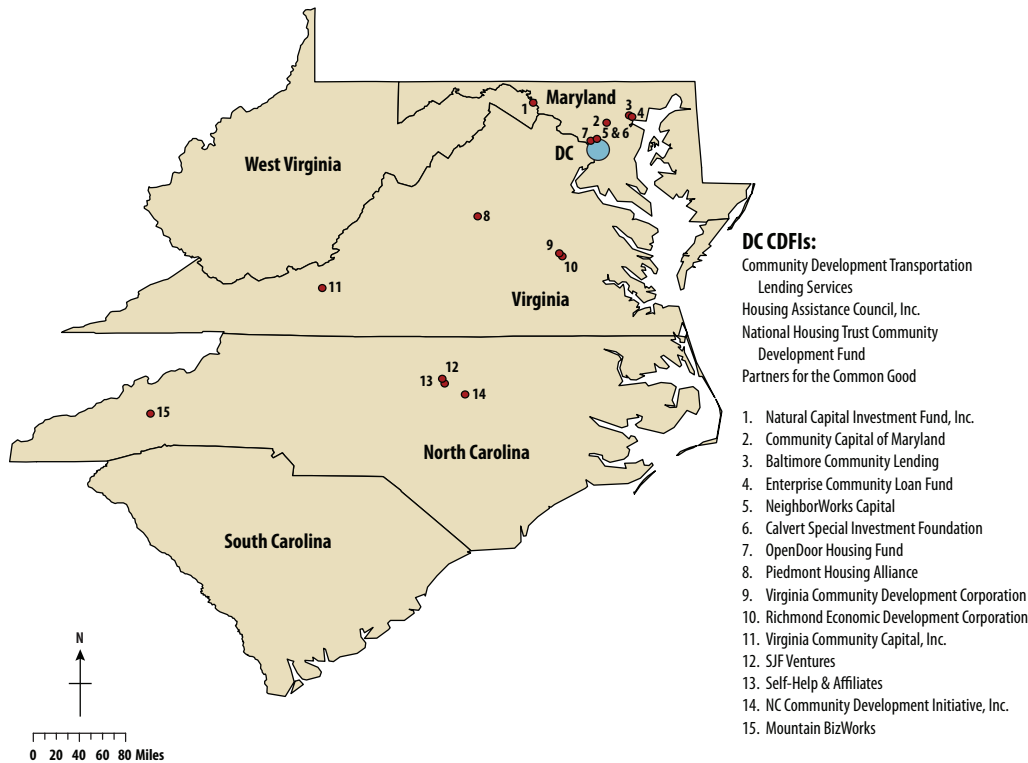
Photo: Courtesy of Opportunity Finance Network



“The housing market remains central to the economic and financial challenges that we face. Because housing and mortgage markets are tightly interlinked with the rest of the economy, actions to strengthen financial markets in the broader economy are important ways to address housing issues. By the same token, steps that stabilize the housing market will help stabilize the economy as well.”

– Ben S. Bernanke, Chairman,
Federal Reserve Board of Governors

FIGURE 1
Fifth District:
Community Development
Financial Institutions



Source: Opportunity Finance Network (OFN) member list

obligations (types of asset-backed securities).

Mizen also asserts that any number of other high-yield asset markets might have fueled the 2007-08 credit crunch, including hedge funds, private equity and emerging market equities. However, it just happened to be that the subprime trouble occurred first. A number of bank failures

then spurred a reaction in the markets for short-term paper, and other financial institutions withdrew from lending in money markets.

Solid underwriting standards and relationship lending may have shielded some CDFIs from severe impacts of the credit crunch. Although CDFIs typically lend to people who can't qualify for a conventional loan, CDFIs tend to know their neighborhoods well and insure that the borrower can repay the loan.¹

The Funding Maze

Notwithstanding that CDFIs make prudent lending decisions and maintain low loan losses, the

road ahead for CDFIs in the current credit market remains unclear. The Opportunity Finance Network (a member organization for CDFIs) estimates that more than 90 percent of CDFI capital comes from private sources such as banks, faith-based institutions, foundations and individuals. As credit standards tighten, many fear that banks and investors will scale back their participation in community development projects. Private-sector investment remains critical to CDFIs' ability to meet the credit and capital needs of underserved communities.

For each dollar the federal government has invested in CDFIs through the Community Development Financial Institutions Fund (CDFI Fund)—an office within Treasury—CDFIs have leveraged between \$19 and \$27 in new private sector investments, according to the U.S.

WASHINGTON, D.C.

CITY FIRST BANK SPURS INNOVATIVE DEVELOPMENTS IN D.C.

By Ellen Janes

City First Bank has dedicated 10 years of lending to boosting the economic vitality of Washington, D.C.'s most distressed communities. As part of its list of services, City First offers a wide range of financial tools, technical expertise and mission-related investment opportunities to the nation's capital and its nearby suburbs. Ambitious partnerships with local, regional and national institutions and the creative use of public funds have made City First a leader in community development.

City First works closely with its community-based customers, which include small, often start-up, businesses; non-profit organizations; social service agencies; charter schools; and nonprofit and for-profit developers of affordable housing.

Originally capitalized with \$9.5 million in federal Economic Development Initiative and Community Development Block Grant funding, City First created a bank holding company to raise capital from investors. Investors range from Georgetown University to major banks serving the D.C. metropolitan area.

City First Bank is also certified as a Community Development Financial Institution (CDFI) and a Community Development Entity (CDE) by the CDFI Fund. Its CDFI certification has enabled the bank to receive more than \$4 million in federal support and to be eligible for the Federal New Markets Tax Credits (NMTC) program. Since 2004, the Bank has received \$163 million in NMTCs and leveraged over \$292 million in private financing.

City First Bank has gained expertise in the creative use of public funding and deposits from mission-oriented entities to leverage conventional debt. To attract the deposits it needs to fulfill its lending mission, City First offers a full range of deposit types, plus "large bank" services like Internet banking, remote deposit, deposit analysis and other special services. The Certificate of Deposit Account Registry Service allows investors to provide an FDIC guarantee to very large

Photo: Courtesy of City First Bank



Owner, Warren Brown at his bakery, Cake Love.

deposits. This is especially useful for nonprofits and foundations whose investment policies require full security for their gifts and grants.

One of City First's partners is the Cooperative Assistance Fund (CAF). CAF maintains a deposit with City First that is specifically designated to be used as cash collateral for loans to help approved borrowers of modest means. Since 2002, City First has made \$1.3 million in loans using this facility. The financing has leveraged \$4 in conventional debt for each dollar of CAF investment and has helped create 63 jobs in small neighborhood businesses.

This partnership, which builds on generous support from partners, combined with City First's careful underwriting and capacity to recognize borrower potential, can reap dramatic results. The most famous customer to benefit from the CAF partnership was Cake Love. This business has now grown from one location to seven in the metropolitan area, creating 100 new jobs. Cake Love owner, Warren Brown, has appeared on Oprah and has just finished a 26-segment show on the Food Network called "Sugar Rush."

City First remains a leader in utilizing the New Markets Tax Credit program. NMTCs have helped the bank finance its largest economic development projects, including the E.L. Haynes and Thurgood Marshall Public Charter Schools, the Town Hall Education and Arts Center, the theater/retail redevelopment of Tivoli Square and the Atlas Center for the Arts.

Euphemia L. Haynes Public Charter School

The E. L. Haynes Public Charter School currently serves 308 children from first through eighth grades. About \$21 million in NMTC authority provided by City First in 2006 encouraged a number of investors to contribute to the school project. Partners included National Mutual Insurance Company and Boston Community Capital. With these resources, the school moved from temporary quarters above a CVS store to a 46,000-square-foot green facility. Thirty-year, fixed-rate and below-market financing will save the school nearly \$1 million per year— funds that now can be used for academic and enrichment programs. The school plans to add a 450-student high school within five years.

Tivoli

The Tivoli project in the Columbia Heights neighborhood emerged through the vision of developer, Joseph Horning. Horning and his firm, Horning Brothers Developers, worked with businesses, neighborhood activists and social service organizations to arrange a sustainable occupancy mix, including a major grocery store, small retailers, the offices of a nonprofit agency, a bank and the Gala Hispanic Theater. Using \$18 million in NMTC, City First and Wachovia Bank financed the renovation of this 1922 movie palace into a cultural center for the thriving Latino community of Columbia Heights. The Tivoli development has spurred even more business as coffee houses, a pizza parlor, and other small businesses have emerged to serve patrons of the theater as well as the entire neighborhood.

For more information, visit www.cityfirstbank.com

Ellen Janes is a regional community development manager in the Federal Reserve Bank of Richmond's Community Affairs Office. She works out of the Baltimore Office and conducts outreach in Maryland, Washington, D.C., and Northern West Virginia.

NORTH CAROLINA

NORTH CAROLINA SUSTAINS “INITIATIVE” DURING THE CREDIT CRUNCH

By Carl Neely

How does a community development finance organization keep its doors open in lean funding times? For one, by investing in community-based organizations that raise their own revenues. The North Carolina Initiative Capital (Initiative Capital), a certified Community Development Financial Institution (CDFI) based in Durham, N.C., seeks to invest in high-performing community development corporations (CDCs) that are sustainable and grow their operations. Initiative Capital leverages these investments and appropriations to attract millions of dollars of additional private sector investment.

Like private-sector companies, who continually re-engineer their business practices and strategies to keep pace with market changes, CDFIs are challenged to re-evaluate the effectiveness of their operations. Initiative Capital, for example, has begun to deploy new strategies to strengthen its ability to serve as a community investor and partner. Working closely with the North Carolina Community Development Initiative, its parent company, Initiative Capital provides project lending, strategic issue management and project

Photos: Courtesy of North Carolina Community Development Initiative



An affordable housing project supported by the North Carolina Community Development Initiative in Kinston and Sanford, North Carolina.

development assistance to the CDC industry and other mission-based ventures statewide.

The current credit environment has caused Initiative Capital to shift strategic focus. “Initiative Capital has seen an increase in demand for working capital lines of credit, debt restructuring and gap financing for development projects,” explains Aundra Wallace, senior vice president of commercial real estate for Initiative Capital. The organization has received more than \$6 million in loan requests, up from more than 50 percent over the previous year. According to Wallace, tightened credit underwriting thresholds will likely cause demands of capital to remain high into 2009.

Initiative Capital’s current strategic approach hinges on delivering key lending products and technical assistance. Some of these products include real estate development, land acquisition, and gap, working capital, and short-term permanent

financing. Under its Flexible Credit Lending product, Initiative Capital provided a \$40,000 bridge loan to Wilson Community Improvement Association in Wilson, N.C. The loan supported a \$6 million rehabilitation project for Beacon Pointe, a 104-unit, market-rate apartment complex with affordable housing units.

The Initiative Capital continues to create new products that meet the capital needs of local communities. These products are vital to the North Carolina community development industry, which invests 78.6 percent of CDFI fund dollars in affordable housing construction. Initiative Capital has amassed over \$20 million in lending capacity.

Initiative Capital continues to deploy innovative approaches to fill critical capital gap needs for their community development partners. Additionally, they have become more attractive to investors and philanthropic

organizations that seek to invest in initiatives that target resources and have measurable outcomes. Not only has Initiative Capital established loan products and services in the state, the organization has also taken a lead role in green building through their product line called EnviroSteel™. EnviroSteel™ consists of ready-to-build housing plans that combine passive solar technology and steel framing. The designs incorporate energy-efficient construction standards as well as an optional solar water heating system. This idea will open new sources of financing for affordable housing.

For more information about Initiative Capital, visit www.ncinitiative.org/home.cfm.

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MARYLAND

MARYLAND FUNDER EMBRACES AN INTERNATIONAL LENDING STRATEGY

By Ellen Janes

Maryland Capital Enterprises (MCE) discovered inspiration for its micro-enterprise lending program in Bangladesh as well as in neighboring Delaware. From afar, MCE admired the work of the Grameen Bank in Bangladesh—where grants of less than \$100 could be leveraged to grow a home business. Also, the State of Delaware's micro-capital initiative in the mid-90s reaffirmed that the model could work in Maryland.

Beginning in 1998, MCE has gradually refined its microenterprise approach into a program that delivers a cost-effective, high-performing economic development tool to eight of Maryland's Eastern Shore counties. Throughout the 1990s, the Maryland shore's manufacturing and seafood industries declined and new jobs were scarce. Economic development and planning professionals from rural Wicomico County, the University of Maryland-Eastern Shore's Rural Development Center and the U.S. Department of Agriculture (USDA) recognized an abundance of talent and commitment to hard work in the shore's

population. Looking for a strategy that could build upon this strength, MCE settled on peer lending as practiced by the Grameen Bank and emulated by Delaware's YWCA.

MCE began as a peer lender, holding monthly meetings of small groups of entrepreneurs who collectively reviewed, approved and monitored loans that averaged \$500. In 2000, in consideration of their borrowers who preferred a more customary relationship with both lenders and peers, MCE shifted to a more conventional lending approach. Gradually, as a certified Small Business Administration (SBA) lender, USDA Small Business Intermediary Lender and Community Development Financial Institution (CDFI), MCE has raised its maximum loan amount to \$35,000 for a start-up business and \$50,000 for expansions. They have developed an extensive variety of support for start-up and expanding businesses. MCE now offers pre- and post-loan assistance on topics ranging from inventory control and marketing, to minority business

certification. MCE staff make frequent on-site visits to program participants to maintain strong customer relations. They also offer training and assistance to businesses.

"MCE is dedicated to developing sustainable communities and improving the quality of life through rural economic development. The face of entrepreneurship reflects the dreams and goals of each person. Our micro-lending programs create an increased self-respect and a sense of achievement to our clients," says Hayley Gallagher from Maryland Capital Enterprises.

Since 1998, MCE has lent nearly \$1 million. More than 900 entrepreneurs have taken advantage of MCE's training, counseling and loan funds, and together they have created more than 150 permanent jobs. MCE's annual budget averages \$575,000. About 85 percent of the group's support comes from federal and state sources, and the balance comes from individual and corporate contributions and foundation grants.

For more information, visit www.marylandcapital.org or call (410) 546-1900.

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Department of the Treasury. This proves to be the case largely in government tax-credit programs that finance affordable housing and development projects. It also applies to entities that offer banking services targeted to lower-income communities and persons.

CDFIs, like traditional financial institutions, depend on credit availability to provide financing. Recent losses in the housing and credit markets have left financial companies without profits to shield themselves

from taxes, a benefit that government tax-credit programs provide. In early 2008, *The Wall Street Journal* reported that these losses have stalled affordable housing projects, primarily multifamily construction. With few buyers of the Low Income Housing Tax Credits (LIHTCs)—a federal program designed to support the production of new affordable rental housing through tax credits—developers face a steep funding gap. “With millions of homes expected to go into foreclosure over the next few years, an ample supply of affordable multifamily housing is more crucial than ever,” said Judy Kennedy, executive director of the National Association of Affordable Housing Lenders. “The severe liquidity constraints faced by our nation’s leading nonprofit lenders threaten that supply.” Lower credit availability keeps CDFIs from responding to higher demands for alternative affordable housing options, especially as the number of mortgage foreclosures that displace homeowners continues to escalate.

CDFIs: Past and Present

According to the CDFI Coalition, the current CDFI industry began taking shape in the late 1960s and early 1970s. During that time, CDFIs, some of which started as community development corporations, expanded their funding sources by reaching out to private organizations, particu-

FIGURE 2

Organization Type of CDFIs in the Fifth District

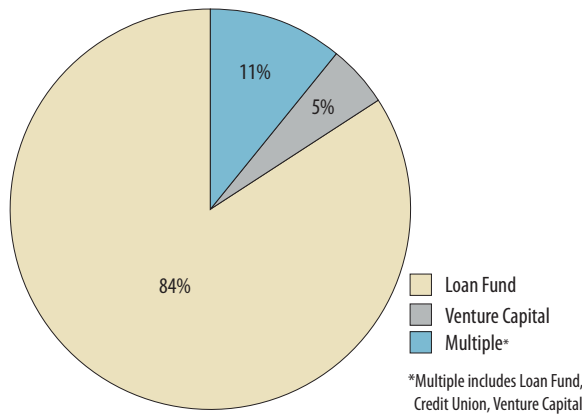
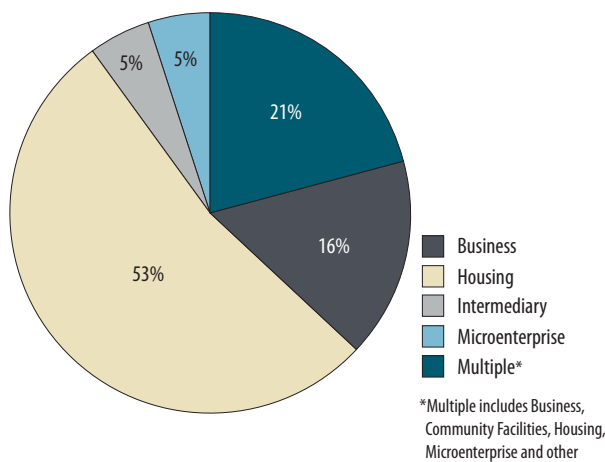


FIGURE 3

Lender Type of CDFIs in the Fifth District



Note: From the Opportunity Finance Network’s member list, 19 community development financial institutions operate in the Fifth District. Of the 19, about 80 percent are organized as loan funds and over half are engaged in affordable housing lending. [See the list of CDFIs on page 17.]

larly religious institutions and individuals. In the 1990s, the CDFI industry expanded dramatically, in large part because of the creation of the CDFI Fund and revisions to the Community Reinvestment Act (CRA), which explicitly recognizes loans and investments in CDFIs as a qualified CRA activity.² Created in 1994, the CDFI Fund has become a critical source of support for the CDFI industry by promoting economic revitalization and community development through investment in and assistance to CDFIs. To date, the CDFI Fund has certified over 800 CDFIs. It has also awarded over \$900 million to CDFIs, community development organizations and financial institutions through its programs.

The CDFI industry raises capital from banks, corporations, individuals, and government and philanthropic sources. CDFIs generally fall into six categories:

- **Community Development Banks** provide capital to rebuild lower-income communities through targeted lending and investment.
- **Community Development Credit Unions** promote community ownership of assets and savings; provide affordable credit card and retail financial services to lower-income people with special outreach to minority communities; and offer deposit and loan services only to members.
- **Community Development Loan Funds** aggregate capital from individuals and institutional social investors at below-market rates and re-lend this money primarily to nonprofit housing and business developers in urban and rural lower-income communities.
- **Community Development Venture Capital Funds** provide equity and debt with equity features for medium-sized businesses to create jobs, entrepreneurial capacity and wealth that benefits low-income people and communities.
- **Microenterprise Development Loan Funds** foster social and business development through loans and technical assistance to low-income individuals who own very small businesses or who are self-employed and unable to access conventional credit.
- **Community Development Corporations** revitalize neighborhoods by producing affordable housing, creating jobs and providing social services to low-income communities.³

[See the CDFI comparison chart on pages 14 and 15.]

The growth of the CDFI industry, in large part, has expanded the concept of community development. Moving beyond the “War on Poverty” framework—one in which government allocates funds to infrastructure upgrades in distressed communities and to social service programs—community development is measured by its performance

ADDITIONAL RESOURCES:

CDFI Fund
www.cdfifund.gov

CDFI – Community Investment Impact System – describes CIIS, links to research, findings and reports
www.cdfifund.gov/impact_we_make/data_reports.asp

The CDFI Coalition
www.cdfi.org

CDFI Institute
<http://cdfi.org/index.php?page=institute-a>

STATE PROFILES

DC
<http://cdfi.org/uploads/stateprofiles/DC.pdf>

MD
<http://cdfi.org/uploads/stateprofiles/Maryland.pdf>

NC
<http://cdfi.org/uploads/stateprofiles/NorthCarolina.pdf>

SC
<http://cdfi.org/uploads/stateprofiles/SouthCarolina.pdf>

VA
<http://cdfi.org/uploads/stateprofiles/Virginia.pdf>

WV
<http://cdfi.org/uploads/stateprofiles/WestVirginia.pdf>

Opportunity Finance Network (OFN) CARS™ – CDFI Assessment and Rating System
www.opportunityfinance.net/financing/finance_sub4.aspx?id=56

Rated CDFIs from our District: Enterprise Community Loan Fund
www.enterprisecommunity.org

Housing Assistance Council
www.ruralhome.org

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VIRGINIA

VIRGINIA COMMUNITY CAPITAL STRIVES TO BE A MODEL FOR STATEWIDE CDFIS

By Courtney Mailey

Virginia Community Capital (VCC), a nonprofit, non-stock bank holding company, serves the Commonwealth of Virginia through both a certified Community Development Financial Institution (CDFI) and Virginia's first community development bank. Since 2005, VCC's evolution has unfolded rapidly when it expanded from a \$150,000 community development financial institution offering microloans and individual development accounts to a \$15 million lender with a range of community development financial products with capital privatized by state government.

Just as the credit climate began to take its toll on banks around the country, VCC opened a new for-profit subsidiary community development bank, Community Capital Bank of Virginia, in September 2008. VCC's deal flow is rising for some of its products, particularly those financing commercial and residential real estate and healthcare development

projects. Since fall of 2008, many Virginia community banks started tightening credit due to market changes, but VCC has continued to lend.

"Sometimes, we will utilize funds from both entities [the CDFI and the bank] in order to mitigate risk and provide flexible capital to a variety of project types," says VCC President Jane Henderson. These projects include developing small businesses, preserving housing projects and building community health facilities.

According to Henderson, the current lending environment helps VCC provide both flexible capital and technical assistance. Moreover, banks have been supportive of VCC's efforts and view the entity as a partner rather than a competitor because of VCC's gap financing capabilities. Other strong partners, such as vendors, clients, correspondent banks, capital providers and accountants, have spent time understanding and analyzing the VCC business model in order to customize products and services to meet VCC's business needs.

VCC plans to grow as a major New Markets Tax Credits player in Virginia by becoming a debt provider, increasing its portfolio of rural small business loans and bringing the community development bank into sustainable profitability by 2011. Future profits will then be channeled into the CDFI and technical assistance activities. "We appreciate Virginia's innovative decision to privatize capital in order to leverage

a public-private partnership focused on this mission," said Henderson. "Our goal is to demonstrate the legislators' wisdom in doing this by remaining sustainable well into the future."

For more information about Virginia Community Capital, visit www.vacommunitycapital.org.

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***EDITOR'S NOTE:**

Jane Henderson chairs the Federal Reserve Bank of Richmond's Community Development Advisory Council.

Photo: Courtesy of VCC



VCC celebrates the opening of Community Capital Bank of Virginia at its headquarters in Christianburg, Virginia.

SOUTH CAROLINA

SOUTH CAROLINA COMMUNITY BANK: POISED TO LEAD THROUGH ECONOMIC CHANGE

By Carl Neely

The demand for capital and gap financing has recently increased significantly because financial institutions and businesses remain unsure about future market conditions. A survey polling financial institutions, community development corporations and small businesses in South Carolina indicated an increasing need for gap financing for affordable housing projects.¹ The state has its share of financial institutions; however, only a few focus on building affordable housing or have programs that support small business development.

Since 1999, South Carolina Community Bank (SCCB) has experienced significant growth and has established a niche in both financial and community development-oriented products and services.² SCCB plays a dual role as a traditional lender and Community Development Financial Institution (CDFI). SCCB assists with the banking needs of consumers in South Carolina, while the CDFI finances initiatives that rebuild at-risk communities. SCCB's CDFI has formed creative partnerships to sustain their efforts as economic times become more challenging.

As one of a few CDFIs in the state that concentrates its efforts in lower-income areas, SCCB has leveraged its capital base by establishing partnerships with conventional banks such as Carolina First Bank, South Carolina Bank and Trust and First Citizens Bank. "Over the past three years, SCCB has received over \$1.1 million from the CDFI Fund's Bank Enterprise Award (BEA) grant in recognition of its efforts in distressed communities," said Clente Fleming, president of SCCB. "The Bank has also used the BEA program to

procure deposits and negotiate flexible lending and investment structures from non-CDFI banks. In total, these banks have over \$2.3 million in lending and deposits."

In 2008, SCCB helped finance several community projects, including a line of credit to build affordable homes in the Clarendon, S.C., area and supplied working capital to open the Popular Restaurant in Orangeburg, S.C. The restaurant serves 4,200 people weekly and has created approximately 40 jobs in the community. In addition, SCCB provided interim financing for the construction of a shopping center in a low-income area of Columbia, S.C.

SCCB has been designated as a minority-owned financial institution (MOFI). This status allows the organization to target investments and build trust in minority communities that have been historically isolated from access to credit and capital. By collaborating with community-based organizations and historically black colleges and universities in lower-income areas, SCCB has positioned itself as a trusted financial leader in providing credit and banking services in underserved communities.

"South Carolina Community Bank has successfully leveraged its relationships with faith-based organizations such as churches with predominantly minority congregations to conduct financial seminars for youth and adults alike. Many of these outreach sessions result in the opening of new deposit accounts with the Bank, as well as expanded lending opportunities," explained Fleming.

The Bank continues to experience success with its Second Chance checking

program, which allows individuals that have had past financial troubles with banks to receive financial literacy training and a "second chance" to build a relationship with SCCB.

South Carolina Community Bank, the fourth largest bank headquartered in South Carolina, has two branches in Columbia, one branch in Sumter, one in Eastover and one in Orangeburg, South Carolina.

For more information on SCCB, visit www.scccommunitybank.net.

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ENDNOTES:

¹ Survey conducted by the Southern Association for Financial Empowerment, a subsidiary of the Southern Association of Community Development Corporations. 2006.

² http://findarticles.com/p/articles/mi_m0EIN/is_2004_Sept_17/ai_n6198293

based on “double-bottom-line” returns. This approach commits community development groups to balancing positive social impact and sound financial performance.

As the community development field matures, the question becomes “How will CDFIs continue to grow and sustain themselves, particularly in challenging economic times?” Nancy Andrews, president

WEST VIRGINIA

FUND SEEKS TO PROTECT THE ENVIRONMENT AND CREATE JOBS IN APPALACHIA

By Courtney Mailey

Started as a pilot project by The Conservation Fund in 1999, the Natural Capital Investment Fund (NCIF) promotes environmentally sustainable development by providing affordable, flexible capital and key management assistance to small and emerging businesses that adhere to a “triple bottom line” philosophy.

“For us, a triple bottom line business is usually a small and emerging natural resource-based business that creates jobs while practicing good environmental stewardship,” says Marten Jenkins, executive director of NCIF. At a minimum, we are looking for a management team that wants a profitable business while doing right by its employees and the environment.”

NCIF operates primarily in economically distressed rural areas in North Carolina, the northeastern portion of Tennessee, Virginia and West Virginia. The organization’s portfolio includes 27 firms in industries such as sustainable tourism, green building, value-added and alternative agriculture, alternative and renewable energy, value-added forest products and natural medicines.

NCIF has built its capital base of \$4.5 million primarily from federal and foundation sources including the following: the Community Development Financial Institutions Fund, the Calvert Social Investment Foundation, the U.S. Department of Agriculture’s Rural Development

Photo: Courtesy of FLS Energy



FLS Energy, a rapidly growing designer and installer of solar systems for residential and commercial customers, is creating jobs while expanding efficient alternative energy options for consumers with financing from NCIF and Mountain BizWorks.

and Intermediary Relending Programs, the Appalachian Regional Commission, the Claude Worthington Benedum Foundation and the Mary Reynolds Babcock Foundation.

Jenkins credits the U.S. Treasury Department’s CDFI certification as an important step to building credibility with initial investors. “We continue to build partnerships with local revolving loan funds, regional venture capital groups and banks. What we are doing is still new in this part of Appalachia, so educating financial partners is an ongoing activity,” he said. NCIF extended its financing products further in 2008, when it established a partnership with Coastal Enterprises, Inc., to provide access to New Markets Tax Credits for transactions that range from \$4 million to \$20 million in NCIF’s service area.

NCIF builds trust with clients and banks through its technical assistance activities. As creative and flexible financiers, NCIF also connects businesses with professional services. “Accounting services are most in demand, but entrepreneurs need access to other kinds of specialists as well. For example, we were able to identify a food technology specialist in Nebraska to help a firm develop a shelf-stable caramel sauce,” said Jenkins. The organization also uses its technical assistance to build relationships between companies in its targeted sectors to develop the potential for flexible production networks. To date, the wood products and forestry sector firms in NCIF’s portfolio have demonstrated the most desire to work together on common short-term projects.

Though interest in NCIF funding has increased because of the credit crunch, Jenkins still believes NCIF’s greatest value to businesses lies in its ability to provide technical assistance in addition to capital.

For more information about NCIF, visit www.ncifund.org or contact Marten Jenkins at (304) 876-2815.

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and executive director of Capital Xchange, discusses the changing capital needs of community development through a paradigm shift she calls “Equity with a Twist.” She points out several complex issues facing the community development field today:

- Federal housing production programs for the most part have been eliminated;
- The Low Income Housing Tax Credit has emerged as principle financing for the production of new affordable housing;
- Comprehensive strategies for community development now involve multiple approaches—housing, job training, child care, health care services, small business development and other social services—and multiple layering of public and private funding sources;
- Some community development organizations have steadily accumulated a stable of properties, requiring more sophisticated management techniques and more complex organizational structures; and
- CDFIs are a dynamic part of the rubric of community development finance and are growing at an extraordinary rate.

Andrews argues for the creation of a new form of capital to fit the emerging needs of complex, high-performing community development organizations. “What is needed now is an innovative form of equity, long-term, patient, but highly flexible, capital where yield is measured in social returns, as well as financial returns,” she said.

Innovation

Both in economic downturns and times of great prosperity, the clarion call for the community development field to innovate will continue to sound. As organizations that assist underserved markets have changed, so have their customers. To keep pace with changes in demographics, consumer finance behaviors, credit and capital gaps, and technology, public and private entities have begun to explore new ways of serving those who still exist outside of mainstream banking—typically referred to as the unbanked. According to the Treasury’s Financial Literacy and Education Commission, 10 million people are considered unbanked or use a variety of alternative financial services. Community development practitioners gather regularly at programs on the topic of innovation to exchange information and best practices. These discussions help practitioners in the field generate new ideas, products, business operations, and information that promote socially responsible enterprises and solutions. CDFIs throughout Fifth District communities have put some of these innovative measures into practice to maintain flows of credit and capital in a weakened economy.

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NCIF

www.ncif.org

Community Development Bankers Association

www.communitydevelopmentbanks.org

National Federation of Community Development Credit Unions

<http://natfed.org>

FRB San Francisco – Center for Community Development Investments

www.frbsf.org/cdinvestments

Woodstock Institute – CDFI Industry Research

www.woodstockinst.org/programs/cdfi

Aspen Institute – Scale and Sustainability

www.aspeninstitute.org/site/c.huLWJeMRKpH/b.613655/k.70FA/Scale_and_Sustainability.htm

Loan Performance of Community Development Financial Institution (CDFI) Fund Sponsored Institutions

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1106179

Enhancing Access to Community Development Capital: Strategies for Strengthening Low- and Moderate-Income Communities (The Finance Project/Annie E. Casey Foundation)

http://76.12.61.196/publications/community_development_capital.pdf

Community Development Municipal Bonds FRB San Francisco – Investing in CRA – Qualified Municipal Securities

www.frbsf.org/publications/community_investments/cra02-2/qms.pdf

PUBLICATIONS AND RESOURCES

Community Investing Center

www.communityinvest.org/resources/add.cfm#cii

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Comparing Different Types of CDFIs

CDFI Type	Purpose	Start-up Considerations	Governance & Ownership	Regulation
Community Development Bank	To provide capital to rebuild lower-income communities through targeted lending and investment	<ul style="list-style-type: none"> • Large capital requirement • Compliance with regulatory agencies 	For-profit corporation; stock ownership; community representation on board	Federally regulated and insured through the Federal Reserve and state banking agencies
Community Development Credit Union	To promote community ownership of assets and savings, provide affordable credit card and retail financial services to lower-income people with special outreach to minority communities, take deposits and make loans to members	<ul style="list-style-type: none"> • Requirement to organize communities • Compliance with regulatory agencies 	Nonprofit financial cooperatives owned and operated by lower-income persons who are members	Federally and state regulated and insured by the National Credit Union Administration
Community Development Loan Fund	To aggregate capital from individuals and institutional social investors at below-market rates and re-lend this money primarily to nonprofit housing and business developers in urban and rural lower-income areas	<ul style="list-style-type: none"> • Flexible start-up requirements 	Nonprofit; community investors, borrowers and technical experts serve on the board and loan committees	Self-regulated; except for nonprofit 501(c)(3) restrictions and state securities law where applicable
Community Development Venture Capital Fund	To provide equity and debt with equity features for medium-sized businesses to create jobs, entrepreneurial capacity and wealth that benefit low-income people and communities	<ul style="list-style-type: none"> • Large capital requirement 	For-profit or nonprofit; varied community representation	Variable; depends on funding sources
Microenterprise Development Loan Fund	To foster social and business development through loans and technical assistance to low-income individuals involved in very small businesses or who are self-employed and unable to access conventional credit	<ul style="list-style-type: none"> • Flexible start-up requirements 	Nonprofit; in-peer lending model, borrower groups make loan decisions	Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit
Community Development Corporation	To revitalize neighborhoods by producing affordable housing, creating jobs and providing social services to low-income communities	<ul style="list-style-type: none"> • Community participation • Community-directed workplans 	Nonprofit; formed by local community residents; operated by a volunteer board; community residents are board members	Regulated by the IRS and grant makers as any other 501(c)(3) nonprofit

CDFI Type	Borrowers	Capital Sources	Financial Products & Services Offered	Technical Assistance Provided
Community Development Bank	Nonprofit community organizations, individual entrepreneurs, small businesses, housing developers	Deposits (often below-market investments) from individuals, institutions and the government	Mortgage financing, home improvement, commercial business, nonprofit and student loans, and consumer banking services	Usually subcontractors or separate subsidiaries offering credit counseling and business planning
Community Development Credit Union	Members of the credit union (usually individuals)	Member deposits and limited nonmember deposits from social investors and the government	Consumer banking services (e.g., savings accounts, check cashing, personal loans and home rehabilitation loans)	Credit counseling and business planning
Community Development Loan Fund	Nonprofit community organizations, social service provider facilities and small businesses	Foundations, banks, religious organizations, corporations, the government, insurance companies and individuals	Construction; pre-development; facilities and business start-up and expansion loans	Extensive guidance before, during and after the loan transaction
Community Development Venture Capital Fund	Invests in small- to medium-sized businesses in distressed communities that hold the promise of rapid growth	Foundations, corporations, individuals and the government	Commercial equity investments and loans with equity features	Extensive technical assistance to portfolio companies, including taking seats on their boards of directors
Microenterprise Development Loan Fund	Low-income individuals and entrepreneurs	Foundations and the government	Microbusiness start-up and expansion	Substantial training and technical assistance in social and business development
Community Development Corporation	Entrepreneurs, homeowners, business owners and consortia of community residents	Banks, foundations, corporations, other private support and the government	Equity investments, mortgage lending, debt financing, linked deposits and individual development accounts	Marketing, business planning, flexible manufacturing networks and business improvement

Source: CDFI Coalition, www.cdfi.org

Photo: Courtesy of Self-Help



Golden Belt, originally a textile factory in Durham, North Carolina, is located in a HOPE VI redevelopment area with high rates of both poverty and unemployment.

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Equity Equivalent Investments

www.frbsf.org/publications/community/investments/cra02-2/equity.pdf

Knowledgeplex – Financial Strategies and Tools

www.knowledgeplex.org/topic.html?c=286

Community Development Venture Capital Alliance – CDVC Funds by State

www.cdvca.org/about/states/index.php

Low-Income Housing Tax Credits (LIHTC)

www.hud.gov/offices/fheo/lihtcmou.cfm

HUD’s LIHTC data sets/database

www.huduser.org/datasets/lihtc.html

OCC Insights – LIHTCs: Affordable Housing Investment Opportunities for Banks

www.occ.treas.gov/ftp/release/2008-10a.pdf

New Markets Tax Credits

www.cdfifund.gov/what_we_do/programs/id.asp?programID=5

FRBSF – Community Investments Online “Making the New Market Tax Credits Count”

www.frbsf.org/publications/community/investments/0308/article1a.html

Data and measurement will continue to be vital to understanding the changing dynamics of communities and populations in underserved markets and to determining how to better serve them. One of the most successful innovations in the CDFI field has been CARS™—the CDFI Assessment and Rating System—a comprehensive, third-party analysis of community development financial institutions that aids investors and donors in their investment decision-making. This program, created by Opportunity Finance Network (OFN), enables subscribers to use rigorous analyses of metrics on performance, impact, and financial strength to guide investment decisions. New information on energy-efficiency points to green building as the next prospect for community development innovation. A recent report by McGraw-Hill Construction shows that, even during a downturn in the housing market, 2 percent of homes constructed in the U.S. are built green. By 2010, the number of green homes is expected to reach 10 percent. The value today of this market sector is at approximately \$7.8 billion.

Looking Forward

The uncertainty in the housing market and the economy presents an opportunity to reassess next steps in community development. In December 2008, the CDFI Fund announced the formation of a new subcommittee that will help the agency make program and policy recommendations on the impact of the current global financial crisis on institutions that the CDFI Fund supports. From tough questions about financing, impact and policy decisions, new ways of thinking and operating can emerge. The next frontier of innovation in community development may be well within reach.

Angelyque Campbell is the senior manager, and Jennie Blizzard is the team leader of the Community Affairs Office at the Federal Reserve Bank of Richmond.

ENDNOTES:

¹ Donovan, William, “Why Community Development Banks are Surviving the Financial Crisis” <http://socialinvesting.about.com/od/sriinvestorconcerns/a/SRICommDevBnks.htm?p=1>

² CDFI Fact Sheet http://cdfi.org/uploads/other/CDFI_Fact_Sheet.pdf

³ Comparing Different Types of CDFIs <http://cdfi.org/index.php?page=info-3>

⁴ www.greenbuildinginsider.com/articles/20081021_1
www.nw.org/network/training/documents/01GreenHomeBuildingtheNumbers.doc

Fifth District CDFI Opportunity Finance Network Member Organizations

CDFI	Address	Telephone	Web Address	Area Served	Organization Type	Lender Type
Community Development Transportation Lending Services	1341 G Street, NW 10th Floor Washington, DC 20005	(202) 415-9682	www.ctaa.org	National	Loan Fund	Business
Housing Assistance Council, Inc.	1025 Vermont Avenue, NW Suite 606 Washington, DC 20005	(202) 842-8600	www.ruralhome.org	National	Loan Fund	Housing
National Housing Trust Community Development Fund	1101 30th Street, NW Suite 400 Washington, DC 20007	(202) 333-8931	www.nhtinc.org	National	Loan Fund	Housing
Partners for the Common Good	1801 K Street, NW Suite M-100 Washington, DC 20006	(202) 689-8935	www.pcgloanfund.org	DC	Loan Fund	Housing, Other, Community Facilities, Business
Baltimore Community Lending	120 East Baltimore Street Suite 1350 Baltimore, MD 21202	(410) 727-8590	www.bclending.org	MD	Loan Fund	Housing
Calvert Social Investment Foundation	7315 Wisconsin Avenue Suite 1100 W Bethesda, MD 20814	(800) 248-0337	www.calvertfoundation.org	MD	Loan Fund	Intermediary
Community Capital of Maryland	2700 Lighthouse Point East Suite 310 Baltimore, MD 21224	(410) 732-9571	www.communitycapitalofmaryland.org	MD	Loan Fund	Housing
Enterprise Community Loan Fund	10227 Wincopin Circle Suite 500 Columbia, MD 21044	(410) 964-1230	www.enterprisecommunity.org	MD	Loan Fund	Housing
NeighborWorks Capital	1100 Wayne Avenue Suite 610 Silver Spring, MD 20910	(240) 821-1651	www.neighborworkscapital.org	Nationwide	Loan Fund	Housing
OpenDoor Housing Fund	8605 Cameron Street Suite 200 Silver Spring, MD 20910	(301) 588-5533	www.opendoorhousingfund.org	DE, MD, VA	Loan Fund	Housing
Mountain BizWorks	153 South Lexington Avenue Asheville, NC 28801	(828) 253-2834	www.mountainbizworks.org	NC	Loan Fund	Microenterprise
NC Community Development Initiative, Inc.	2209 Century Drive Second Floor Raleigh, NC 27612	(919) 828-5655	www.ncinitiative.org	NC	Loan Fund	Housing, Community Service
Self-Help & Affiliates	301 West Main Street Durham, NC 27701	(800) 476-7428	www.self-help.org	National	Loan Fund, Credit Union	Business, Housing, Community Facilities, Microenterprise
SJF Ventures	400 West Main Street Suite 604 Durham, NC 27701	(919) 530-1177	www.sjfund.com	National	Venture Capital	Business
Piedmont Housing Alliance	111 Monticello Avenue Suite 104 Charlottesville, VA 22902	(434) 817-2436	www.piedmonthousingalliance.org	VA	Loan Fund	Housing
Richmond Economic Development Corporation	411 East Franklin Street Suite 203 Richmond, VA 23219	(804) 780-3012	www.redcfinance.org	Richmond, VA	Loan Fund	Business, Microenterprise
Virginia Community Capital, Inc.	990 Cambria Street, NE Christiansburg, VA 24073	(540) 260-3126	www.vacommunitycapital.org	VA	Loan Fund	Housing
Virginia Community Development Corporation	1840 West Broad Street Suite 200 Richmond, VA 23220	(804) 343-1200	www.vacdc.org	VA	Loan Fund	Housing
Natural Capital Investment Fund, Inc.	1098 Turner Road Shepherdstown, WV 25443	(304) 876-2815	www.wvncif.org	NC, TN, VA, WV	Loan Fund, Venture Capital	Business

Source: Opportunity Finance Network's member list