# Strengthening Small & Emerging CDFIs

## Models for Growth - What Works

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## The Good News

- CDFIs have been "stepping into the breach" to address lending-related needs during the recession and have paid a financial price for doing so—but that price has been relatively small and sufficient reserves were set aside to offset the small increase in delinquencies and defaults.
- CDFI portfolio performance has been mixed, but only for a minority of organizations is it an issue that significantly affects overall financial performance. Again, most CDFIs were sufficiently protected through adequate reserves.

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## The Maybe Not-So Great News

- Significant scale effects exist in all sectors of the CDFI industry. i.e., Larger CDFIs showed better performance measures

- Larger CDFIs were more efficient, which was evidenced by:
  - lower combined interest and operating expenses
  - higher deployment rates
  - lower charge-offs
  - greater demonstrable impact



## CDFI Models to Improve Scale

- As part of larger CDFIs' growth strategies, many have developed business models to improve internal efficiencies and create more demonstrable community impacts. Such models have involved the following:
  - Collaborations with other CDFIs and various **network organizations**
  - Implementing **shared service platforms**
  - **Outsourcing** a portion of their operations to a 3rd party service provider

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# Examples of CDFI Models

- Network Organizations
  - ROC USA
  - Federation of Appalachian Housing Enterprises
  - Housing Partnership Network
  - ACCION
  - Lenders One
- Shared Services
  - Craft3
  - The Reinvestment Fund & Low-Income Investment Fund Collaboration
  - Self-Help Federal Credit Union
- Outsourcing
  - Community Reinvestment Fund
  - ACCION Texas' MMS
  - OnDeck



# ROC USA Network ("ROC USA")

- Partnership among New Hampshire Community Loan Fund, The Corporation for Enterprise Development ("CFED"), and NeighborWorks America to support ROC and help organize the supply and demand for manufactured housing.

- Network of nonprofit community development organizations that enables resident ownership of manufacturing housing parks.

- ROC USA operates 3 subsidiaries:
  - A national network of nine TA providers
  - ROC USA Capital provides home financing & serves as a market-based system change strategy; and
  - Corporation for Enterprise Development promotes policy change

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# Federation of Appalachian Housing Enterprises ("FAHE")

- Coalition of 50 community-based nonprofits focused on making housing affordable & available to low-income families.
- Initially used a "hub and spoke" model, but now incorporates a "spider web" model whereby members are interdependent on each other.
- Offers centralized services to members:
  - loan service functions
  - mortgage originations
  - multi-family development
  - staff functions such as operational support, compliance, & HR



# Housing Partnership Network ("HPN")

- National network of 98 nonprofit members, primarily large regional developers and lenders.
- Helps members take a more social enterprise approach to innovation and learning.
- Initially organized as a community of practice, HPN is committed to innovation, performance of the sector, and performance of its members as businesses.
- Offers its members such services as:
  - peer exchange
  - policy development
  - cooperative enterprise

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# ACCION

- Network of 63 international and domestic affiliate microenterprise organizations that provide over $50k loans annually, with an average size of $8k.
- In 2011, all the affiliates began working under a unified brand, which helps to leverage their collective histories.
- The new model helps improve scale related to:
  - marketing
  - branding
  - program implementation
  - standardized reporting and data analysis

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# Lenders One

- National cooperative of community mortgage bankers, correspondent lenders, and suppliers of mortgage products and services.
- Initially a division of CCA Global Partners, which helped clear the hurdle of high up-front capital costs for its sophisticated operating platform.
- Offers members:
  - bulk purchasing of mortgage fulfillment, technology and business products
  - standardized documentation
  - training
  - social networking

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# Craft3

- Merger of 3 CDFIs in 2007 – Craft3 (formally Enterprise Cascadia), Enterprise Pacific, and Cascadia Revolving Fund of Seattle – into a regional CDFI.
- The impact of the merger included:
  - doubling the size of Craft3's capital fund to $28MM
  - expanding the once rural CDFI's footprint into the urban centers of Portland and Seattle
  - introducing multiple business units that offer comprehensive products and services
  - leveraging of greater resources through internal collaborations

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# The Reinvestment Fund ("TRF") and Low-Income Investment Fund ("LIIF") Collaboration

- The Kresge Foundation wanted to invest in sector learning, so encouraged TRF to partner with LIIF and follow an open-source process for peer learning for the financing of community health center ("CHC") projects. (2010)
- As a result of the market analysis, the two CDFIs created a CHC loan fund with Kresge providing first-loss guarantee.
- The two CDFIs created a shared underwriting and approval platform to share in financial, operational, and reputation risk.
- The creation of the shared platform has encouraged other CDFIs to pursue CHC projects.

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# Self-Help Federal Credit Union ("SHFCU")

- Worked closely with leaders in the Latino community and the State Employee's Credit Union in California ("SECU") to assist with its expansion into California.
  - Self-Help provided TA and shadow management to build capacity
  - SECU provided back-office services in remote areas
  - Latino leaders provided community relationship management and credibility
- SHFCU was created through mergers with seven credit unions throughout CA, and it has become the fastest growing CU in the country with $106MM in assets, 10 branches, and 52k members.
- Benefits of the merger:
  - more services and better pricing for members
  - ATM network
  - mortgage loans and other community facility loans



# Examples of Outsourcing Providers

- **Community Reinvestment Fund ("CRF")**: CRF is a national CDFI that offers other mission-based lenders the following services to increase efficiencies/scale:
  - loan servicing and troubled loan management
  - purchasing of loans on the secondary market
  - various types of back-office support including accounting, compliance, and investor reporting
- **ACCION Texas' Microloan Management System (MMS)**: A web-based platform for business loan originations, which allows for standardized underwriting and approval.
- **OnDeck**: Offers CDFIs a platform for streamlined underwriting, approval, and loan servicing of working capital loans.

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# A New Model for CDFIs?

- There is a need to invest in collaboration and infrastructure.
- Need to build collaborative operating networks similar to Lenders One.
- What are the impediments to building infrastructure (i.e., costs, other)?



# The CDFI of the Future

- CDFIs will have access to a network operating platform that offers centralized operations for such functions as:
  – Finding new co-lending opportunities
  – Selling loans on the secondary market
  – Identifying potential investors for tax credit projects
  – Discounted purchasing of insurance, supplies, credit reports, and loan underwriting/servicing systems
  – Developing a customized marketing campaign for new product launching
  – Comparison shopping for 3rd party loan servicing agents
  – Training and development for staff

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# Best Practices for Collaborative Business Models

| | Doesn't Work | Works Well |
|---|---|---|
| Initiators | Large Groups | A Few Leaders |
| Ownership | Third Party | Members Own |
| Management | Amateur | Professional |
| Membership | Anyone | By Design |
| Entity Type | Non-Operating Association | Operating Entity |
| Representative | Anyone | CEO or Principal |
| Revenue Stream | Donations | Earnings (incl. fees) |
| Driving Rationale | Weak | Strong |
| Value Proposition | Nice to Have | Must Have |
| Relation to Members | Non-Responsive | Very Responsive |



# So how do we get there?

- Key questions the CDFIs must ask themselves:
  - How do we fund it? Do we use an infrastructure fund?
  - Who will organize it?
  - Do we really want it?

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