

Expanding CDFI Coverage in Underserved Areas

Models of Collaboration and Partnership

Understanding the Benefits of CDFI Status for Newly-Certified and Prospective CDFIs
Denver, CO

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Overview

- Why Collaborate?
- What does Collaboration Look Like?
- Network Organizations
- Shared Service Platforms
- Outsourcing to Third Party Service Providers
- Bank Collaborations
- Community Development Venture Capital Funds
- Collaborative Business Models
- Best Practices for Collaborative Business Models
- Next Steps



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Why Collaborate? Business Model and Growth

- More sustainable business model for CDFIs
 - Vertical integration can be costly, difficult to do well
 - Focus on your strengths, find a partner for other functions
 - Increase efficiency
- Support strategic growth goals



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Why Collaborate? Customer Offerings and Impact

- Better offerings and service to customers and members
 - More products
 - Better pricing
- Increase impact
 - Expanded geographic coverage
 - Focus on lending, depository, and development services that make a difference in communities



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What Does Collaboration Look Like?

A wide range of options

- Informal customer acquisition
 - Rewards program for new customer referrals by existing customers
 - Referral network with mainstream lenders, business services providers, advocacy groups
- Formal relationships, partnerships
 - Network organizations
 - Shared service platforms
 - Outsourcing to third party service providers
 - Co-investment by venture capital funds



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Network Organizations

Affordable Housing



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Network Organization: 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, technology, and business products
 - Standardized documentation
 - Training
 - Social networking



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Network Organization: FAHE

- Coalition of 50 community-based nonprofits focused on making housing affordable and 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



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Shared Service Platforms

Community Health Center Financing Co-Lending Collaboration



Geographic Expansion



Technology Platform



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Shared Service Platform: The Reinvestment Fund (TRF) and Low-Income Investment Fund (LIIF) Collaboration

- The Kresge Foundation approached TRF and LIIF to pilot a peer learning initiative
- TRF and LIIF partnered to create an open-source process for financing community health center projects
- Following a market analysis, the 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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Shared Service Platform: Craft3

- Enterprise Cascadia merged with Enterprise Pacific and Cascadia Revolving Fund of Seattle to create 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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Shared Service Platform: Alternatives Federal Credit Union

- Needed to replace antiquated core processing system in order to grow
- Chose a system used by large credit unions in order to support future collaboration
- Using a service bureau to outsource hosting of data processing system
- Paired with a consortium owned by Maine Credit Union League
- Benefit
 - Greater server capacity and technical support
 - Includes disaster recovery through separate facility
 - New capabilities: mobile banking, shared branching, data mining
 - Ability for credit union to focus on outreach and member service



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Outsourcing to Third Party Service Providers

Loan Servicing, Purchasing, Back Office Support



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Outsourcing to Third Party Service Provider: Community Reinvestment Fund

- Community Reinvestment Fund 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
 - Back-office support including accounting, compliance, and investor reporting



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Outsourcing to Third Party Service Provider: LiftFund

- Manages Microloan Management System (MMS)
- Web-based loan origination process
 - On-line loan application on lender's website
 - Automatic review based on application, credit report, repayment data
- Benefits:
 - Increased lending efficiency and growth potential
 - Standardized risk assessment can improve portfolio quality
 - Fast turn-around time
 - Automated loan closing documents
 - Can choose to have MMS underwrite loans
 - MMS partnership with Nortridge Loan System to service loans



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Bank Collaboration and Partnerships

Bank and Bank



Bank and Loan Fund



Bank and Credit Union



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City First Bank of DC and Industrial Bank: Carolina Kitchen

- Carolina Kitchen started as a successful soul food restaurant in Silver Spring, MD owned by entrepreneur Lance London.
- 2003: the building where Carolina Kitchen leased space burned down; London struggles to find mainstream financing for a new location
- 2004: City First Bank of DC approved an SBA loan for a new Carolina Kitchen restaurant in Largo, MD
- 2008: Industrial Bank extends a \$1.6 million SBA-guaranteed loan to finance a new location in Hyattsville, MD
- Today: Industrial is providing \$2.4 million in financing for the latest Carolina Kitchen in Washington, DC. They're also financing London's new concept restaurant, TKO Burger
- These new restaurants are expected to produce about 120 permanent jobs, in addition to the construction jobs already generated.



Carolina Kitchen owner Lance London



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Neighborhood National Bank and Partners for the Common Good Loan Fund: Murphy's Market

- Much of San Diego's distressed City Heights neighborhood has been abandoned by grocery stores, leaving residents without easy access to fresh, nutritious foods.
- In 2009, Neighborhood National Bank provided a loan to Murphy's Market, one of the few grocery stores in the community
- Murphy's Market used the financing to expand to a store twice its old size and to offer more healthy food options.
- Since then, Neighborhood National Bank has continued lending additional funds to the Market
- In 2014, Neighborhood National reached their lending limit.
- Partners for the Common Good stepped in with a \$667,500 loan, allowing Neighborhood National to originate more financing for Murphy's Market



Murphy's Market Owner Riyadh Kassab and family



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BankPlus and Hope Credit Union: New Roots Credit Partnership

- The New Roots Credit Partnership is a 2015 initiative that gives Mississippi residents access to responsible small-dollar loans and free financial education. The program also promotes savings and builds credit.



- Participating employers provide the program as an employee benefit. BankPlus and Hope Community Credit Union make small-dollar loans available for employees who lack access to traditional credit.
- The Partnership benefits all parties
 - Borrowers get responsible loans and financial literacy training
 - BankPlus and Hope get new customers
 - The employers reduce the number of garnishments they have to process and provide workers with a valuable benefit



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Community Development Venture Capital Funds



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Community Development Venture Capital Funds

- Co-investment is common in venture capital industry
 - Typically ad hoc rather than formal relationship
 - Local fund leads in identification of investment
 - Local fund leads due diligence and deal structuring, co-investors participate
 - Each fund makes own investment decision
 - Outside funds may provide specialized expertise



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Collaborative Business Models

What works and what does not work...



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Best Practices for Collaborative Business Models

	Does Not 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 (including fees)
Driving Rationale	Weak	Strong
Value Proposition	Nice to have	Must have
Relation to Members	Non-responsive	Very responsive



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Next Steps

- Examine your strategic business model and value proposition
 - Identify core strengths and weaknesses
 - Clarify key elements of your growth strategy
- Investigate potential for collaboration and partnership
 - Network organizations
 - Shared service platforms
 - Outsourcing to third party service providers
 - Co-investment by venture capital funds
- Develop and implement your growth plan
 - Measurable objectives
 - Key partners



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Questions?



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