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
**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
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

Network Organizations

Affordable Housing
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

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
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
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

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
Outsourcing to Third Party Service Providers

Loan Servicing, Purchasing, Back Office Support

• 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
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

Bank Collaboration and Partnerships

Bank and Bank

Bank and Loan Fund

Bank and Credit Union
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.

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
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

Community Development Venture Capital Funds
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

Collaborative Business Models

What works and what does not work...
Best Practices for Collaborative Business Models

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<th>Works Well</th>
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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
Questions?