



Capitalization Opportunities for Today and Tomorrow

The CDFI Fund's Capacity Building Initiative

September 10-12, 2019

ICF | First Nations Oweesta Corporation | Bluestem Consulting



Disclaimer

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Welcome & Introductions

Your Trainers:

Lisa Wagner
Principal



Krystal Langholz
Chief Operating Officer



Participant Introductions

- Name
- Organization
- Expectations

Common Courtesies

- Be engaged
- Turn cell phones to vibrate
- Take care of yourself

Logistics

- Restrooms
- Breaks
- Lunch



Module 1

Course Overview

Course Learning Objectives

By the end of this course you should be able to:

1. Explain the essentials of capitalization planning;
2. Describe key funding partners and their associated evaluation criteria;
3. Formulate a capitalization and funding strategy;
4. Identify next steps to build the internal capacity necessary to support a more diversified funding base;

Course Learning Objectives, cont...

By the end of this course you should be able to:

5. Comfortably deliver a “pitch” to a funder and adapt that pitch based on funder type;
6. Identify potential “entry points” and partners to access their most relevant funding sources;
7. Explain types of loans that can be sold on the secondary market, and how to do it; and
8. Outline the role of earned revenue and strategic partnerships in an overall capitalization structure.

Agenda Overview

Day One - Tuesday

- Course Overview and Introductions
- Capitalization Essentials
- Get Your House in Order
- Strategic Partners
- Earned Revenue
- Banks

Day Two - Wednesday

- Tribal Governments
- The Feds - Non-CDFI Fund
- Foundations
- Religious Organizations
- Bus Tour

Agenda Overview

Day Three - Thursday

- Other Funders
- Other Capitalization Tools & Strategies
- Making the Ask

Interspersed Throughout

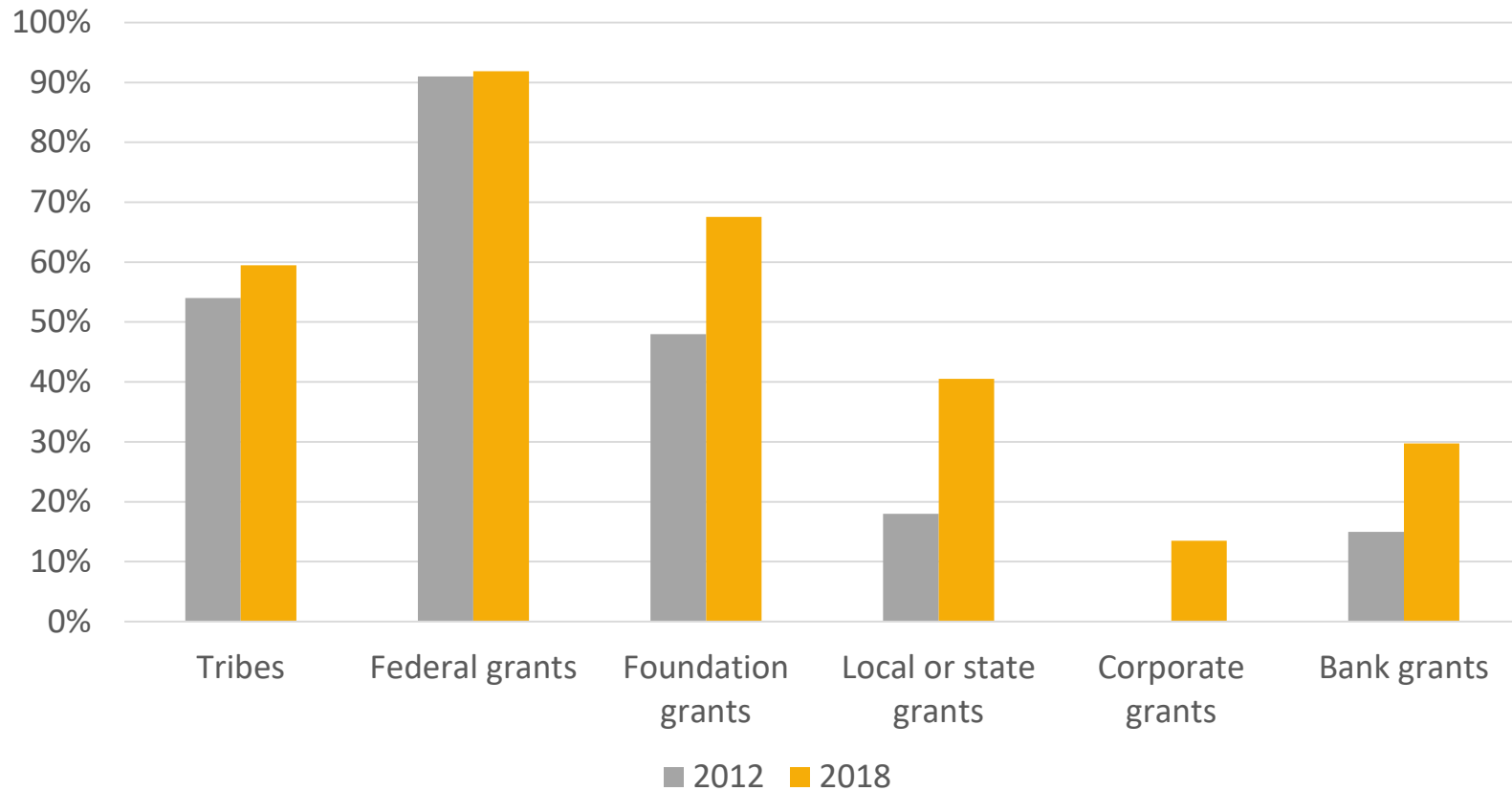
- Case Studies
- Participant Experiences
- Capitalization Canvas Working Sessions



Module 2
Capitalization
Essentials

Native CDFI Funding Landscape*

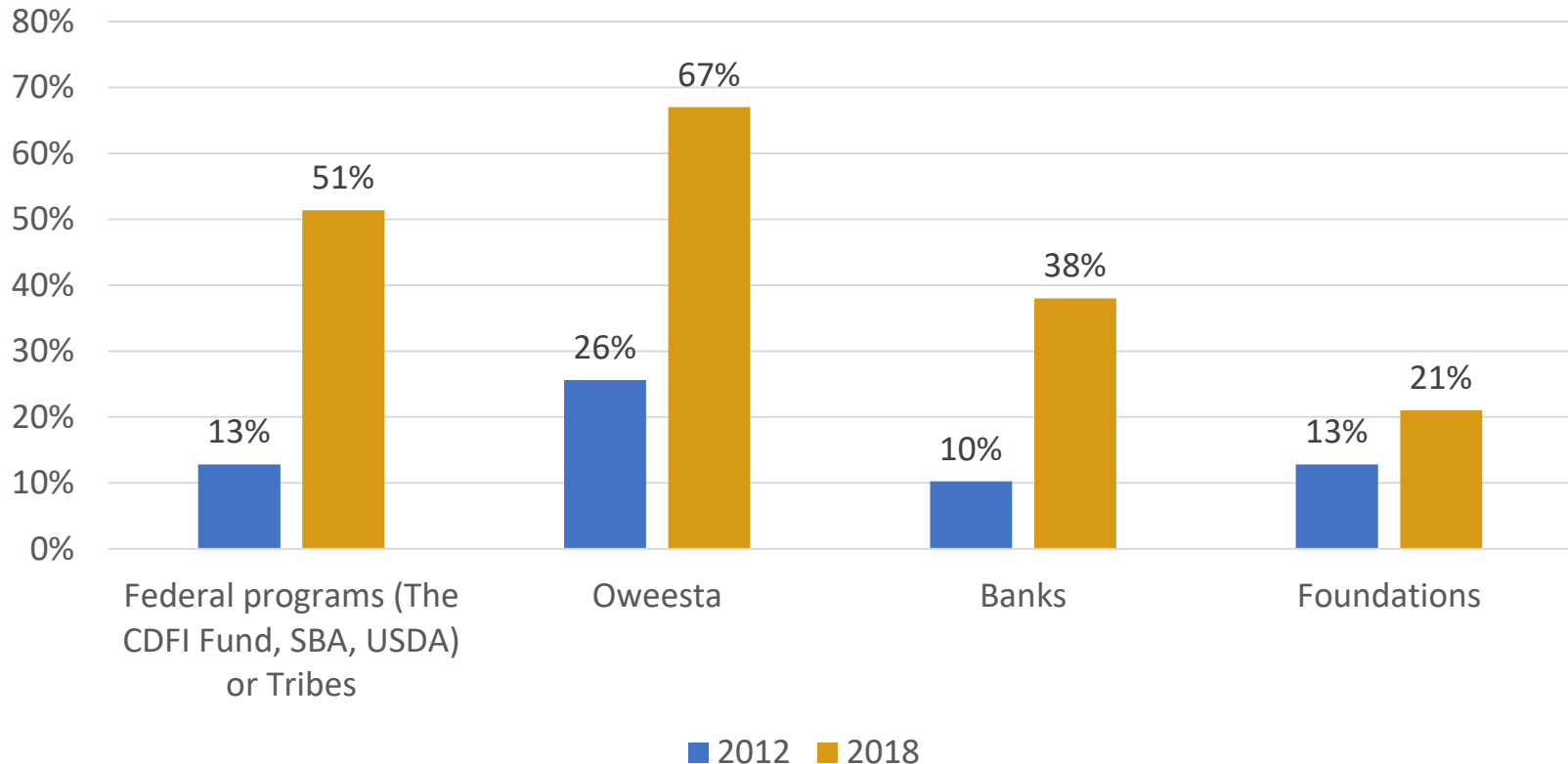
What percentage of Native CDFIs generate operating revenue from each type of funding source?



*Data from First Nations Oweesta's *Snapshot 2018: Native CDFIs and the Capital Access Challenge*

Native CDFI Funding Landscape

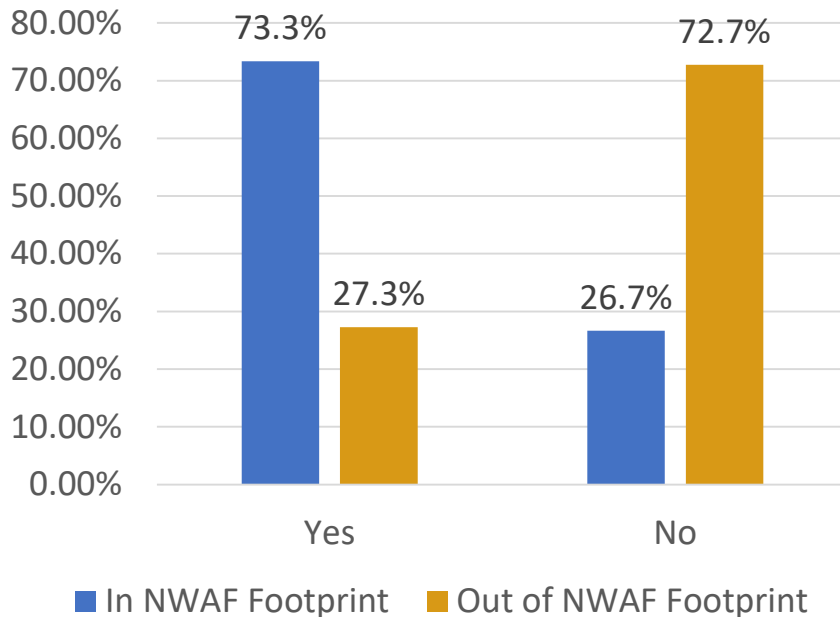
What percentage of Native CDFIs have accessed each type of debt capital?



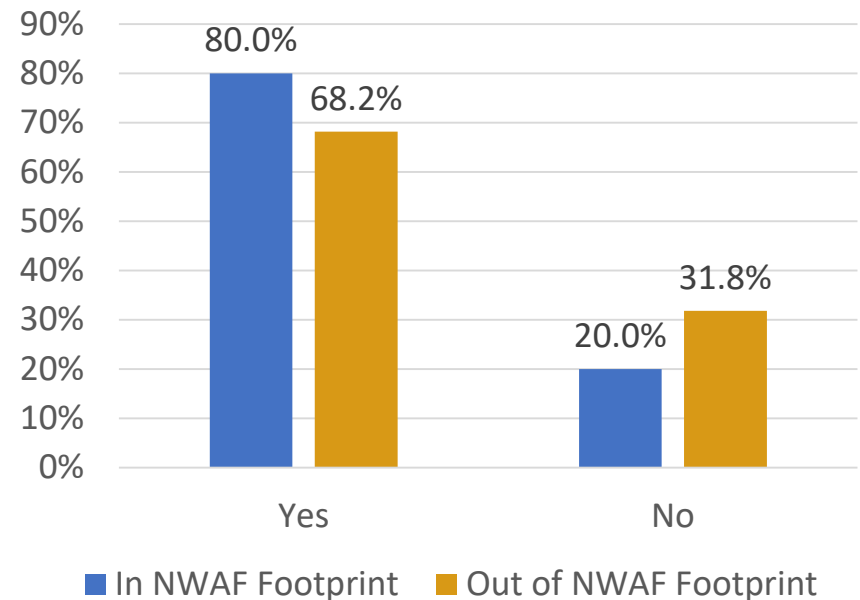
- In 2012, just over 25% of Native CDFIs had accessed debt capital; in 2018 almost 70% had.

Native CDFI Funding Landscape, cont...

Does your organization have a current capitalization plan?

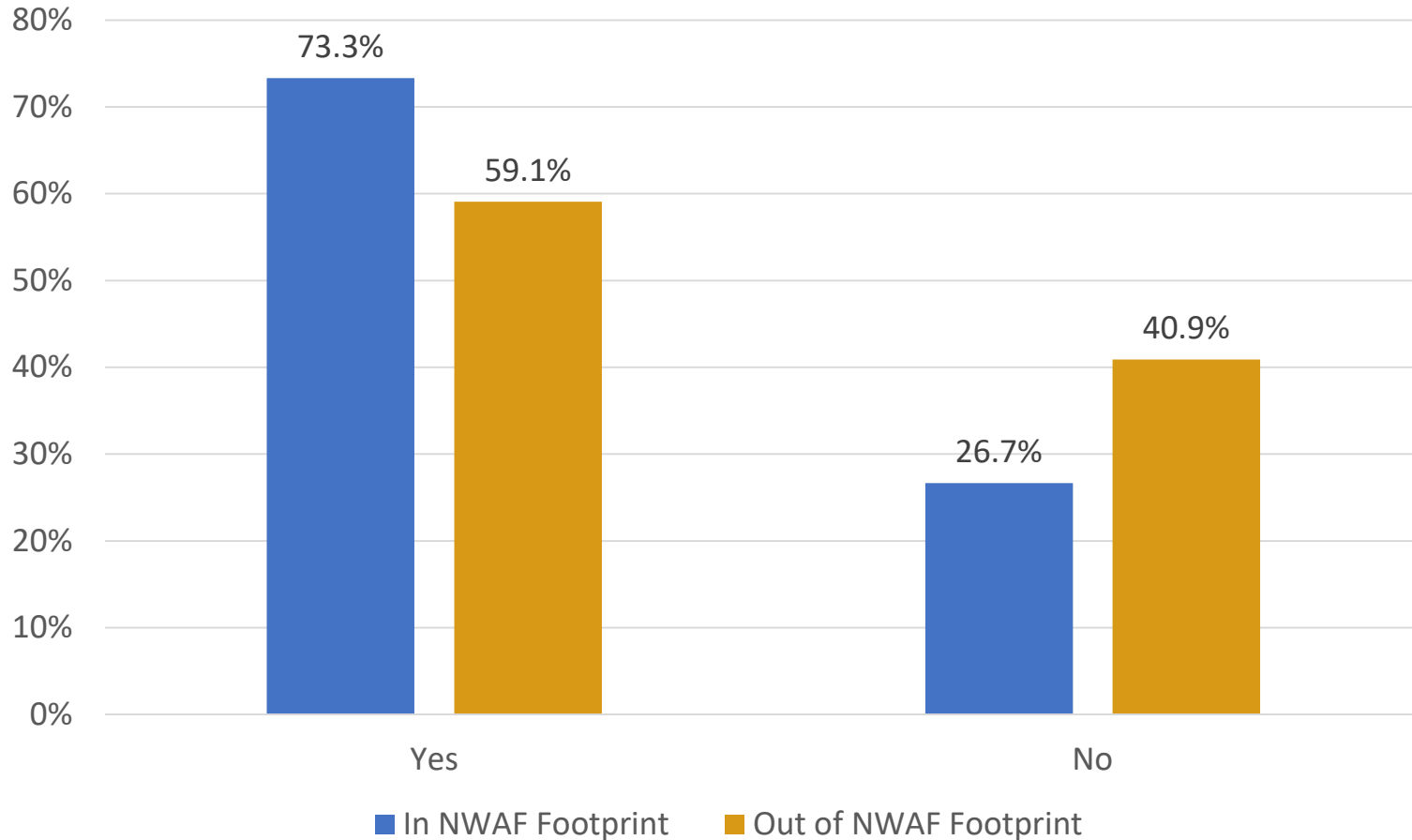


Does your organization have a strategic plan?



Native CDFI Funding Landscape, cont...

Figure 22: Has your organization ever accessed debt capital?



What Is Capitalization Planning?

Capitalization:

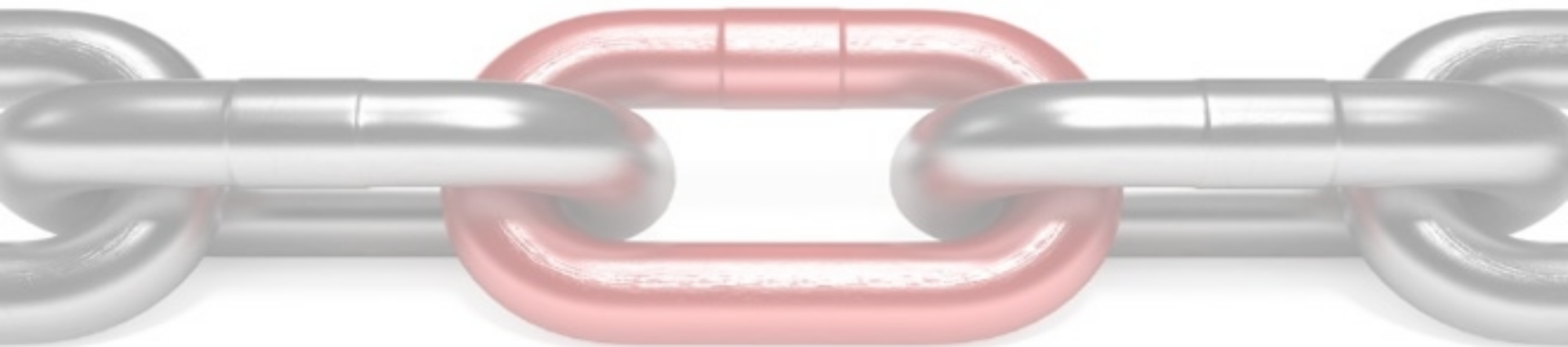
- Typically refers to amounts and types of financing used by an organization
- How much? What kind?
- Balance sheet focused

Planning:

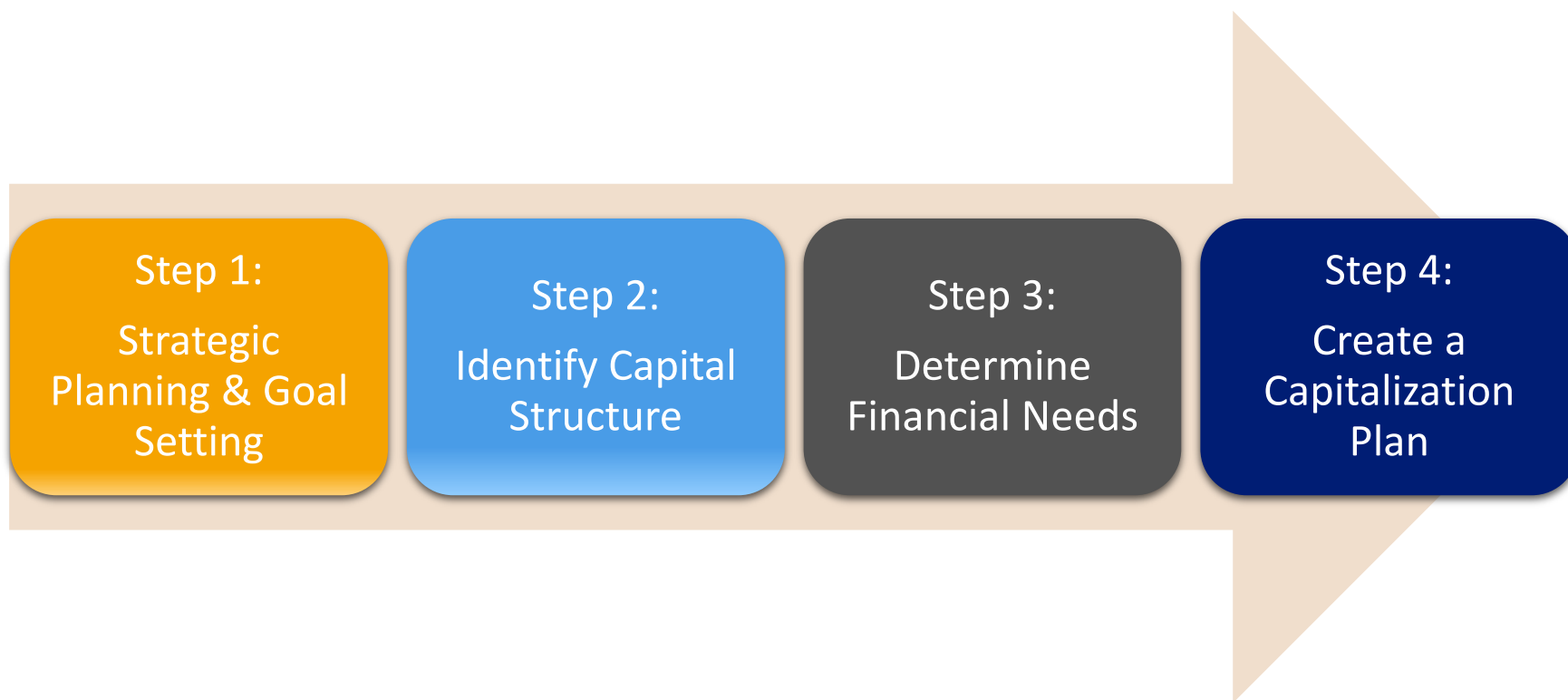
- A road map to ensure you have the appropriate resources to manage risk and pursue mission and goals
- Connecting money and mission

Linking Capitalization & Sustainability: A Resource-Based Approach

- Build strong, resilient programs based on your vision and mission
- Sustain these programs through strategic and collaborative use of resources



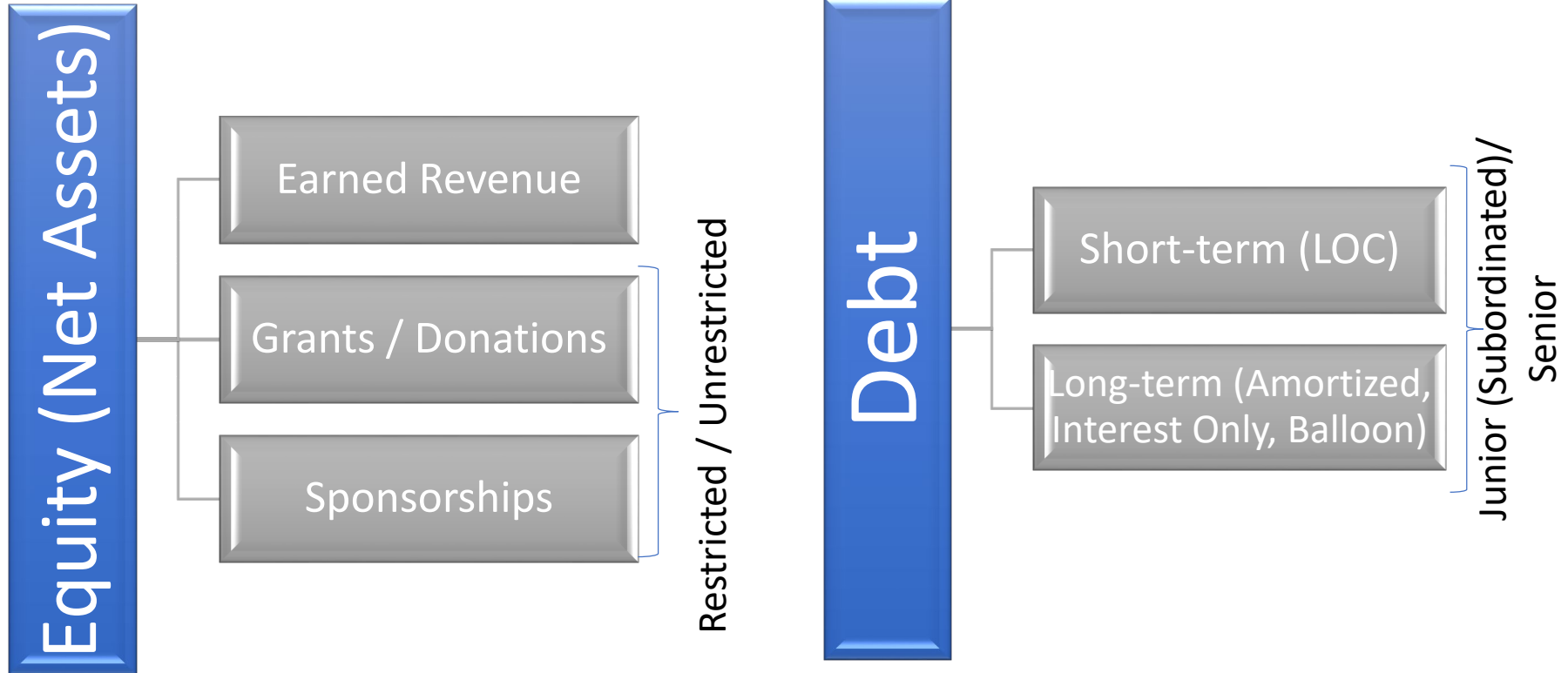
Capitalization Planning Best Practices

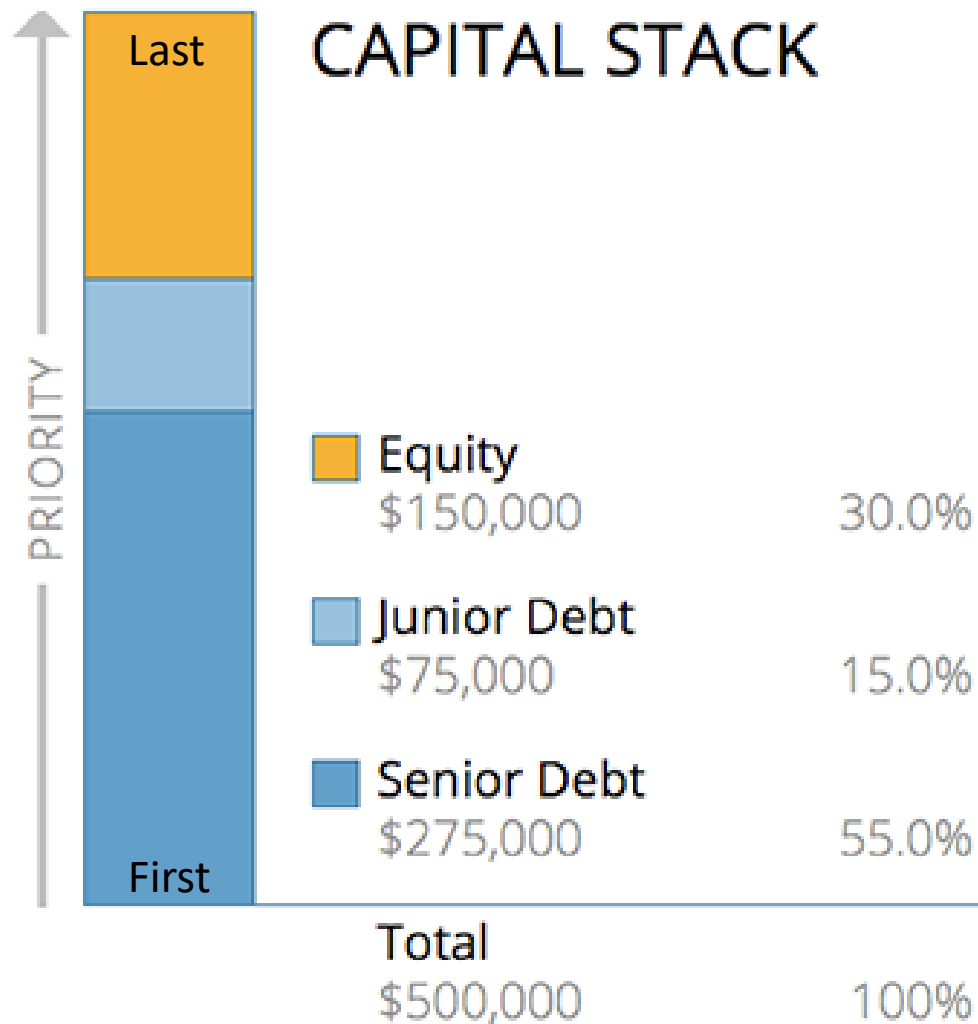


Capitalization – Key Pieces of the Puzzle



Types of Capital



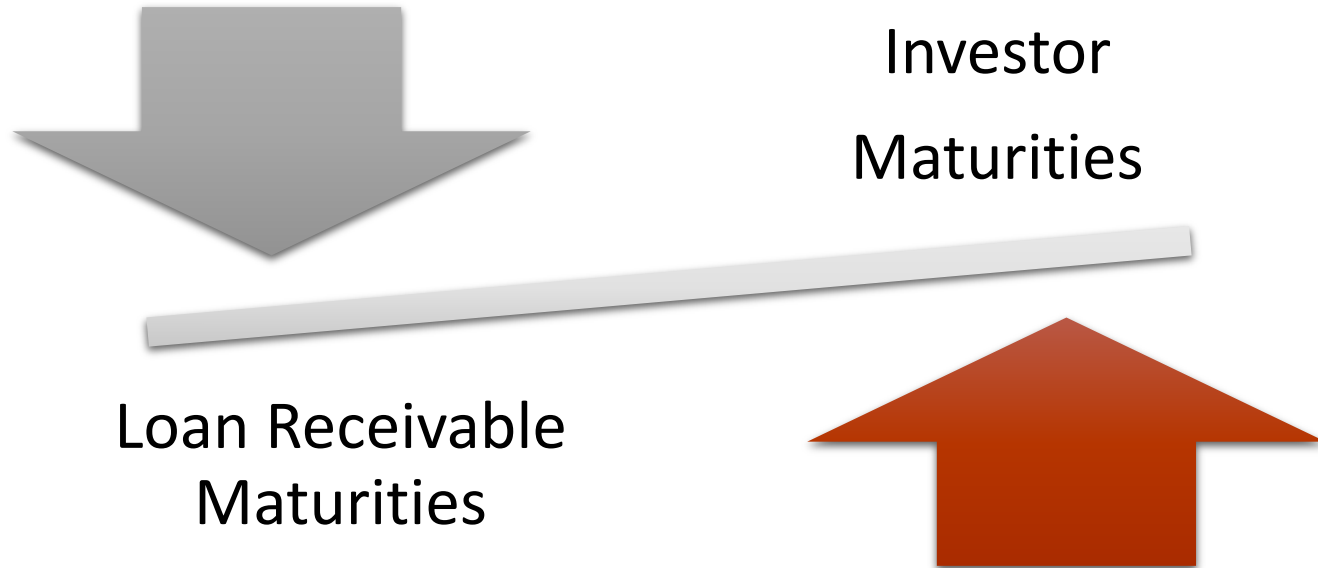


What are you raising money for?

- Affordable housing
- Small business and microenterprise
- Community services such as childcare, education, and health services
- Livable-wage jobs for low-income individuals
- Asset-building for low-income individuals
- Sustainable development

Your uses will dictate the type of money you need to raise.

Asset Liability Matching



- Generally: Loan receivable maturities should be shorter than investor maturities

Sources of Capital

- Earned Revenue (various)
- Banks
- Federal & State Government
- Tribes
- Foundations
- Religious Organizations
- Other

Other Capital Tools

- Loan participations
- Loan guarantees
- Secondary market

Learn the Lingo





Module 3

Getting Your House in Order

Preparing for Capitalization Opportunities

Capital Opportunities

Financial Projections

Financial Health

Strategic Planning

Policies

Capital Structure

CDFI Strategic Planning

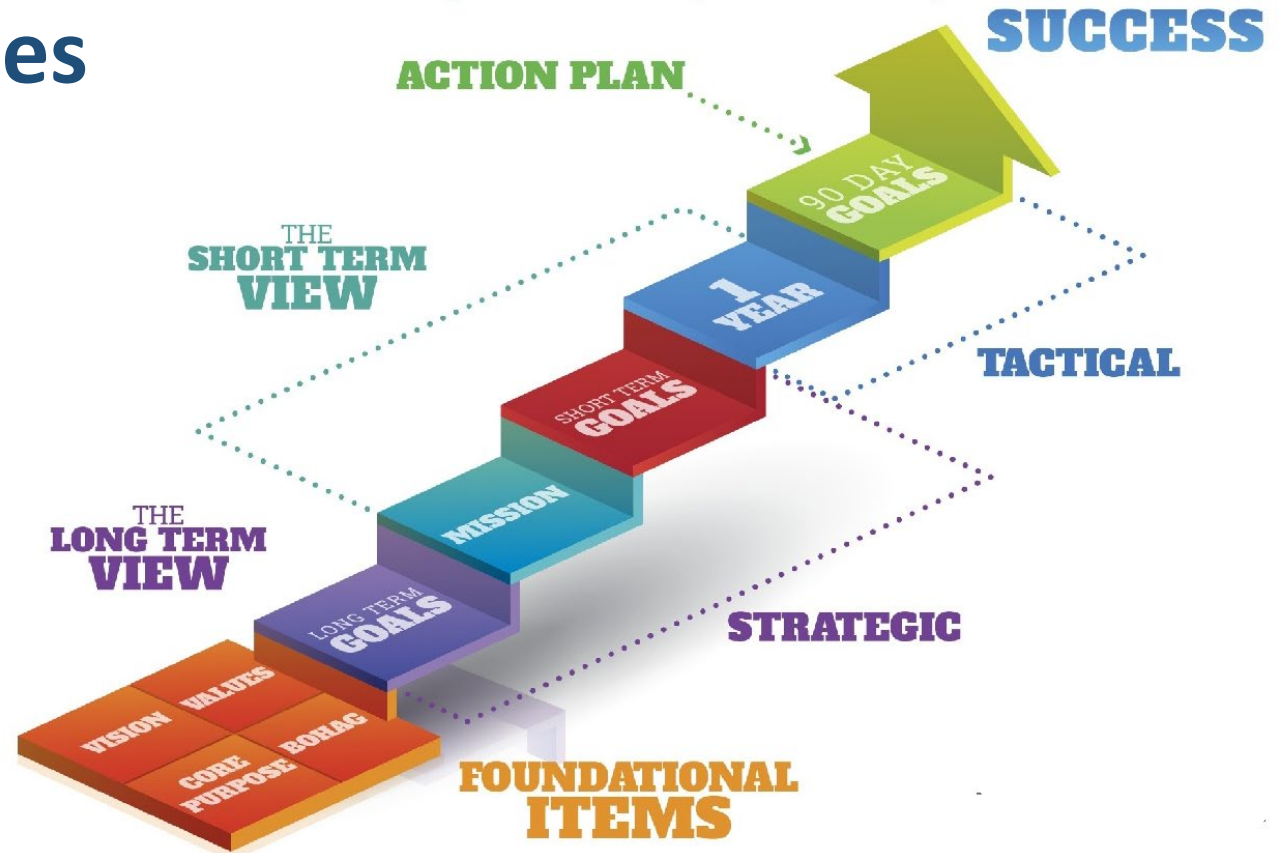
*“Efforts and courage
are not enough without
purpose and direction.”*

-JFK



CDFI Strategic Plans – Best Practices

- Board/staff/key stakeholder input
- Typically 3-5 years
- 10-30 year vision
- Strategic goals w/ annual targets



Strategic Goals May Include...

- Deployment
 - # of Loans
 - \$ of Loans
- Financial Strength
 - Change in Net Assets
 - Portfolio at Risk
 - Self-Sufficiency
- Programs
 - Trainings
 - Technical Assistance
 - Community connection
- Impact
 - Jobs
 - Businesses Assisted
 - First-Time Homebuyers

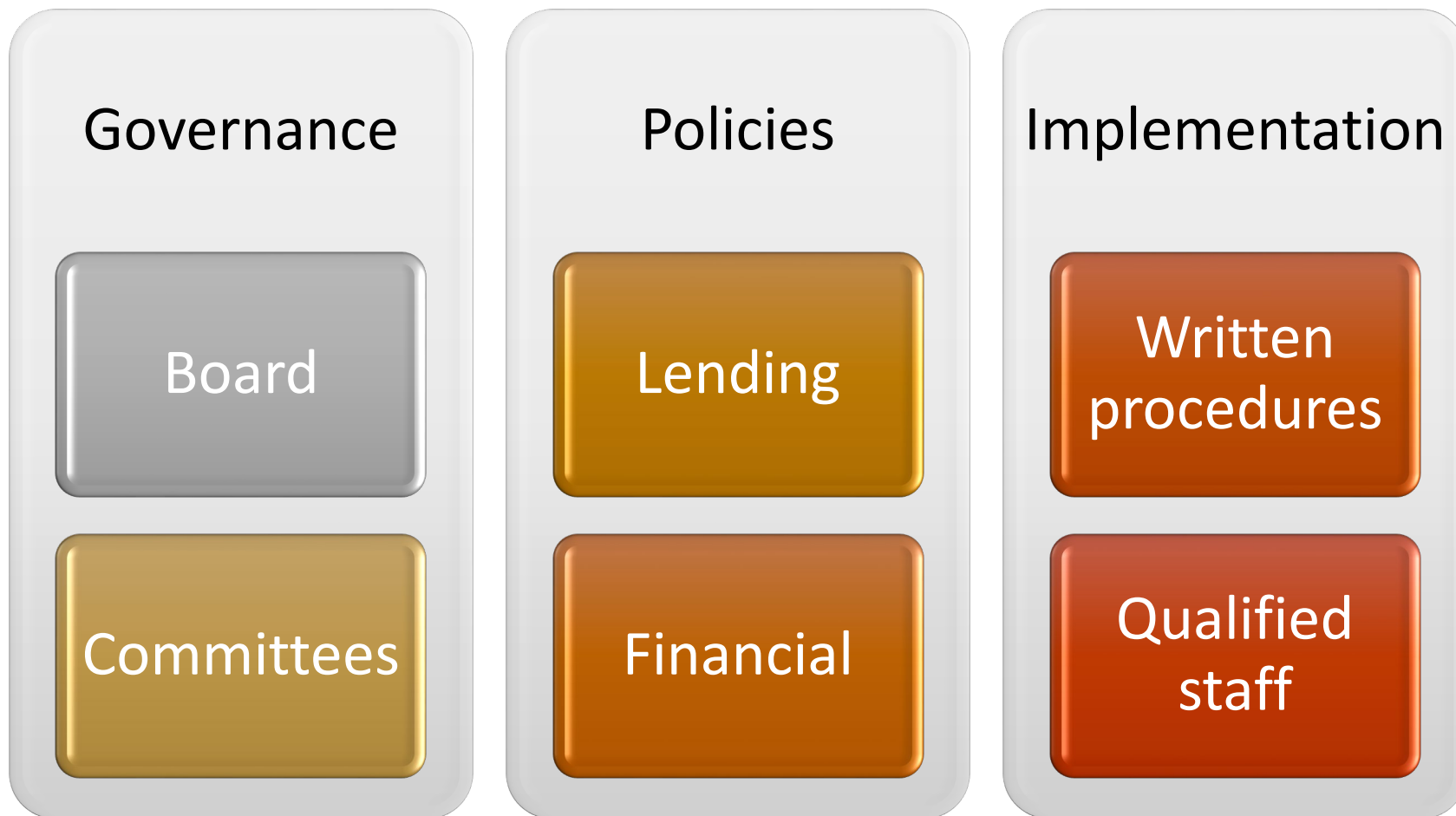
Assess Your Organization: Are You.....



or



Governance, Policies & Implementation



Financial Health: CAMELS Analysis

Capital Adequacy

Asset Quality

Management Capability

Earnings

Liquidity

Sensitivity



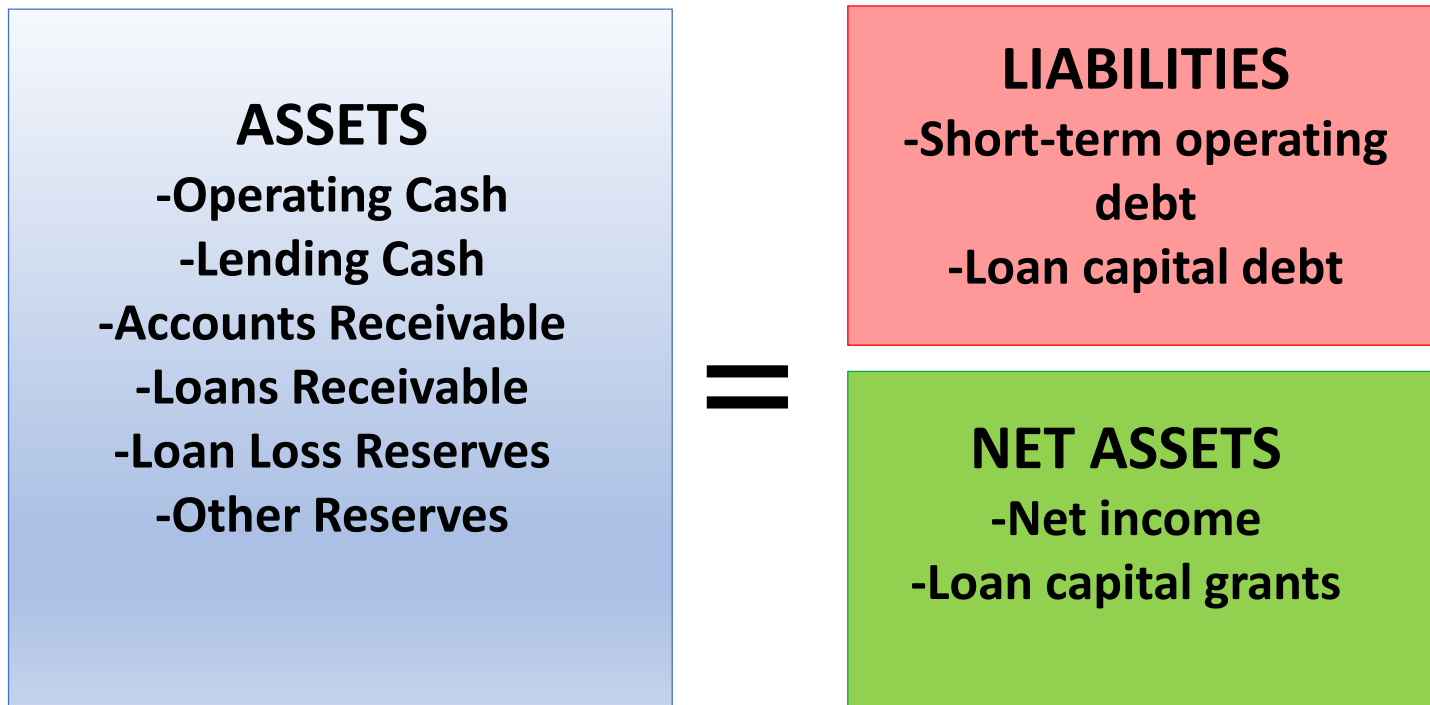
- The batting average for your CDFI!

CAMELS Analysis Key Considerations & Ratios

- At tables, put key considerations and ratios under the correct CAMELS heading

Capitalization Structure

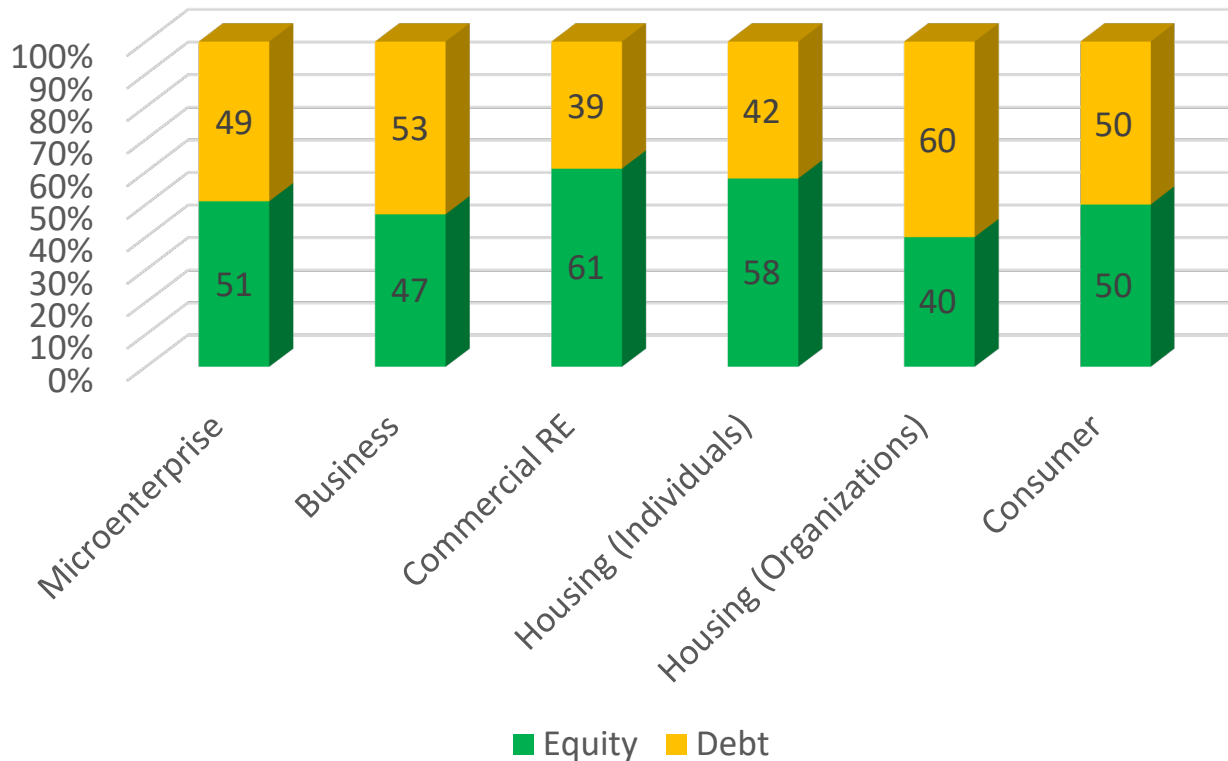
- Building the right balance sheet



What's the Right Level of Debt?

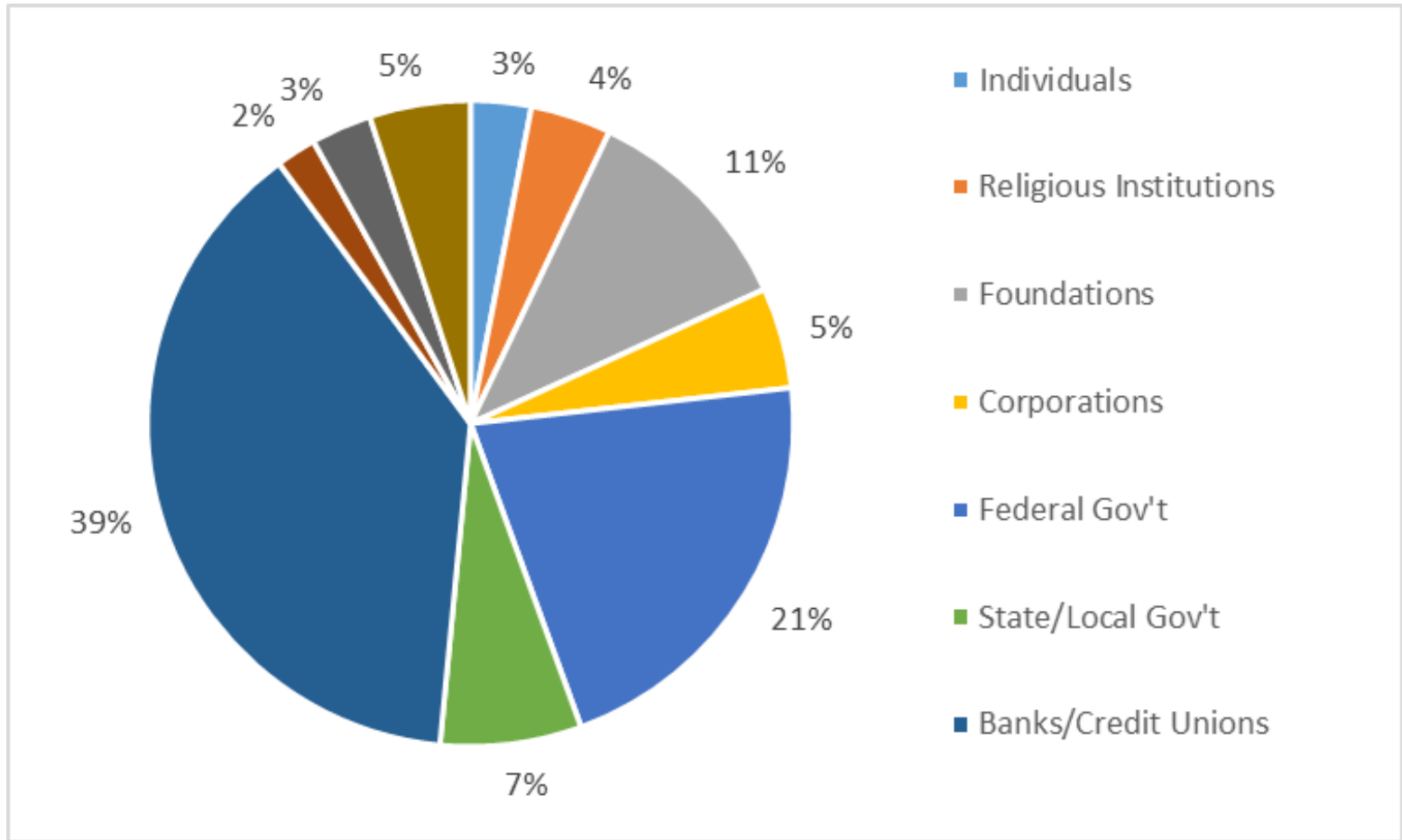


How are CDFIs Capitalized?



Source: 2017 OFN Side by Side

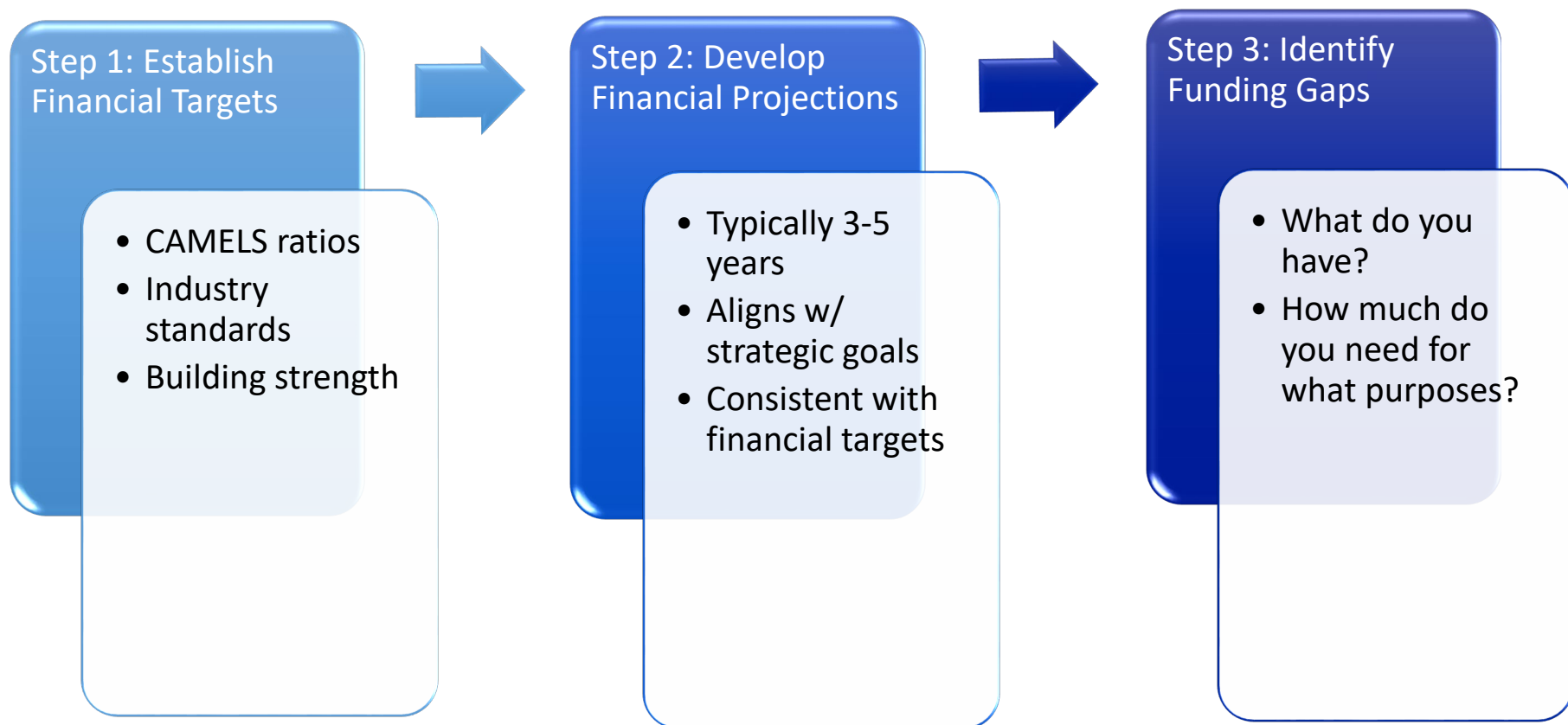
Sources of CDFI Debt Capital



Average cost of debt capital: 2.3%

Average term: 104 months

Developing Financial Projections



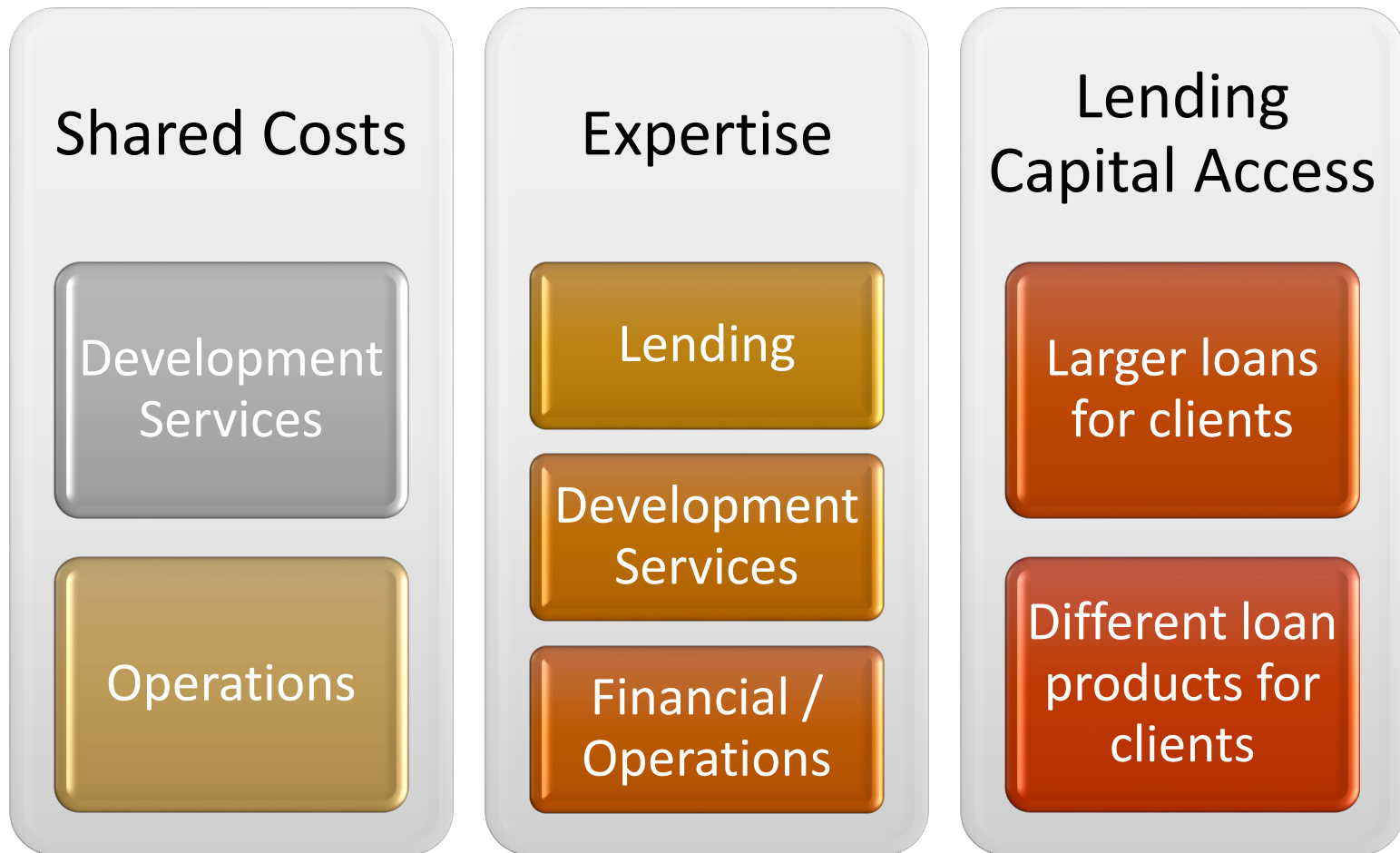


Canvas Working Session: Getting your House in Order



Module 4
Strategic
Partners

Strategic Partners



Your Non-Money Resources

With your group discuss your CDFI non-money resources:

- The activity or need
- The resource/partner that provides it

Activity/Needs to think about:

- Development services
- Lending products
- Human resources
- Space
- Equipment
- Other services/needs

Case Studies: Strategic Partners



Tawney Brunsch, Executive Director



Pete Upton, Executive Director



Module 5

**Earned
Revenue**

Earned Revenue: Definition

- Revenue generated from the sale of goods, services rendered, or work performed

Earned Revenue: Benefits

- Flexibility (unrestricted funds)
- Increases self-sufficiency

➤ *Note: It's only tax exempt if it's mission-related*

Let's Play Native CDFI Family Feud!

- 100 CDFIs were surveyed.
- They were asked...What are your top sources of earned revenue?
- The top 8 answers are on the board.

Other Creative Earned Revenue Strategies





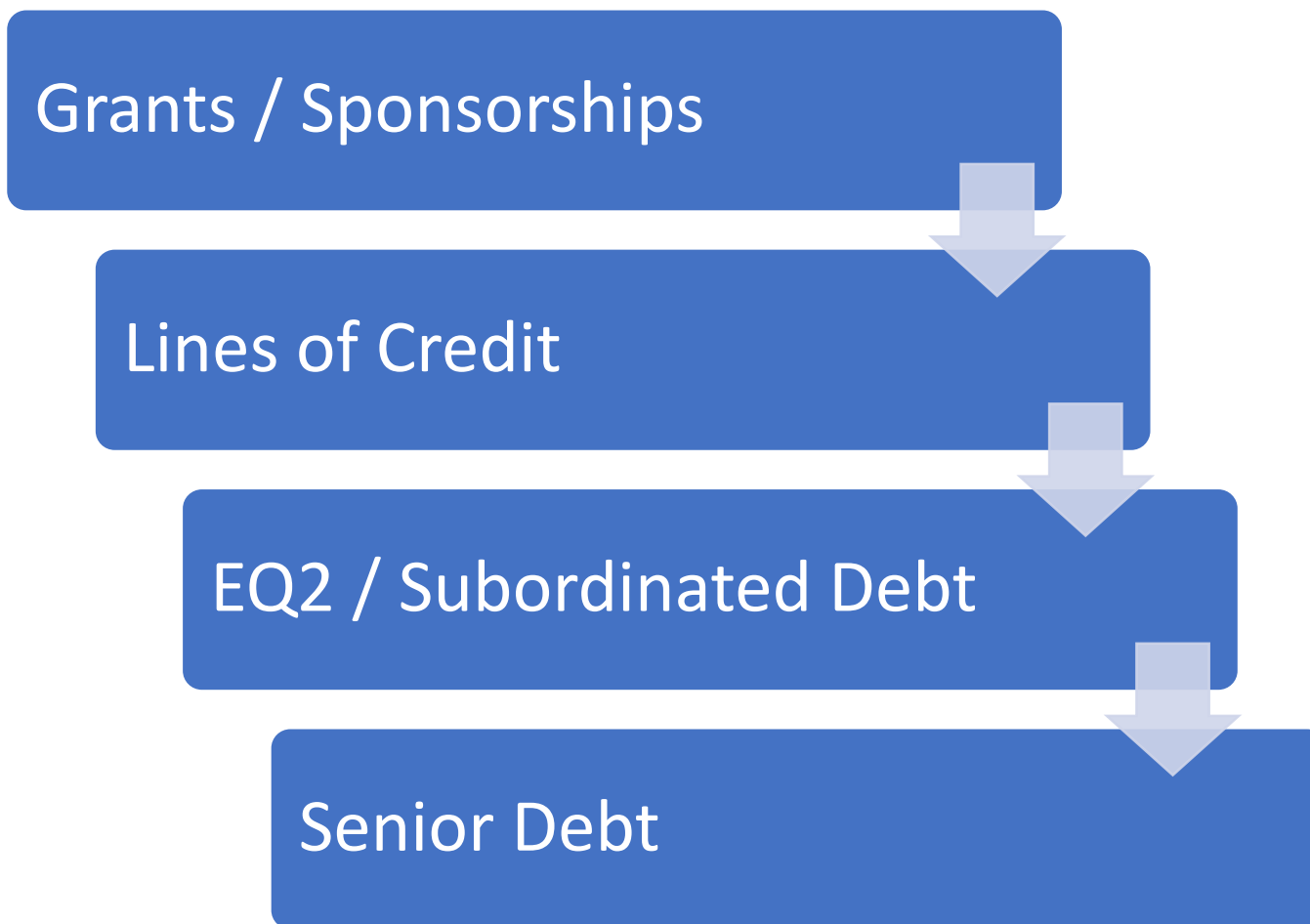
Canvas Working Session: Strategic Partners & Earned Revenue



Module 6

Funder Spotlight: Banks

Example Bank Products for CDFIs



Why Should Native CDFIs Build Partnerships with Banks?

- Grants/operating support
- Get capital investment from banks
- Meet larger capital needs of clients
- Get referrals
- Connect clients to banking services (deposit accounts, credit cards, different loans)

Why Do Banks Partner with CDFIs?

- Build customer and deposit base
- Increase number of loans
- Referral source
- Strengthen their reputation – Promotion/PR
- Good stewards in the community
- CRA credits

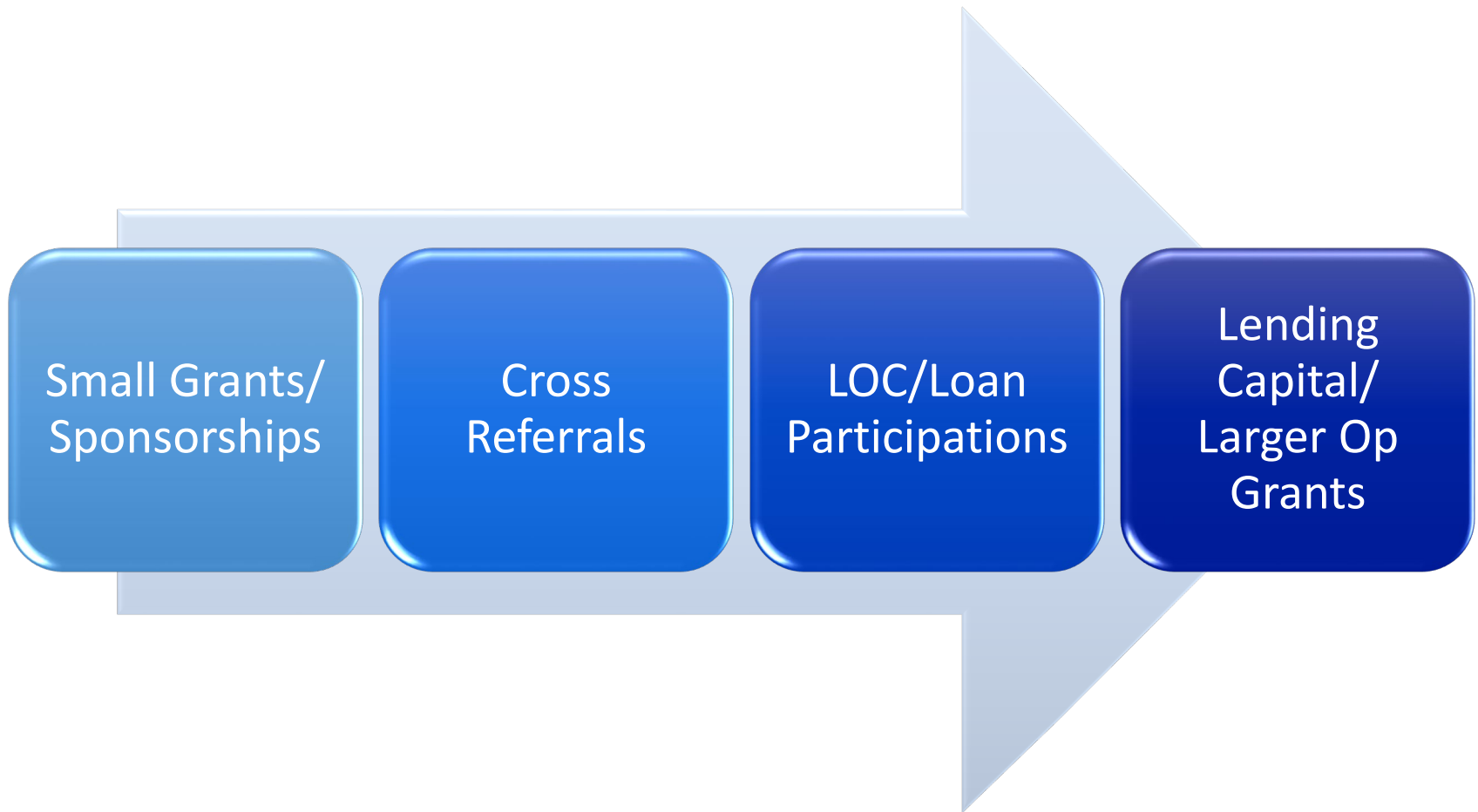
Evaluation Criteria: What Do Banks Look For?

- Numbers, numbers, numbers
 - Clean audits
 - Strong balance sheet; CAMELS analysis
 - High quality portfolio
- Lending policies align with implementation
- Strong management team

Bank Funding: Considerations

- Large amounts of capital available
- Funds usually unrestricted
- Limited reporting
- Stringent underwriting for loan capital
- Numbers focused

The Approach: Building Bank Relationships



Day Two Preview

- Module 7 – Tribal Governments
- Module 8 – The “Non-CDFI Fund Feds”
- Module 9 – Foundations
- Module 10 – Religious Organizations
- Module 11 – Citizen Potawatomi Bus Tour



Reflections and Wrap Up

Share a reflection about
what you learned today.

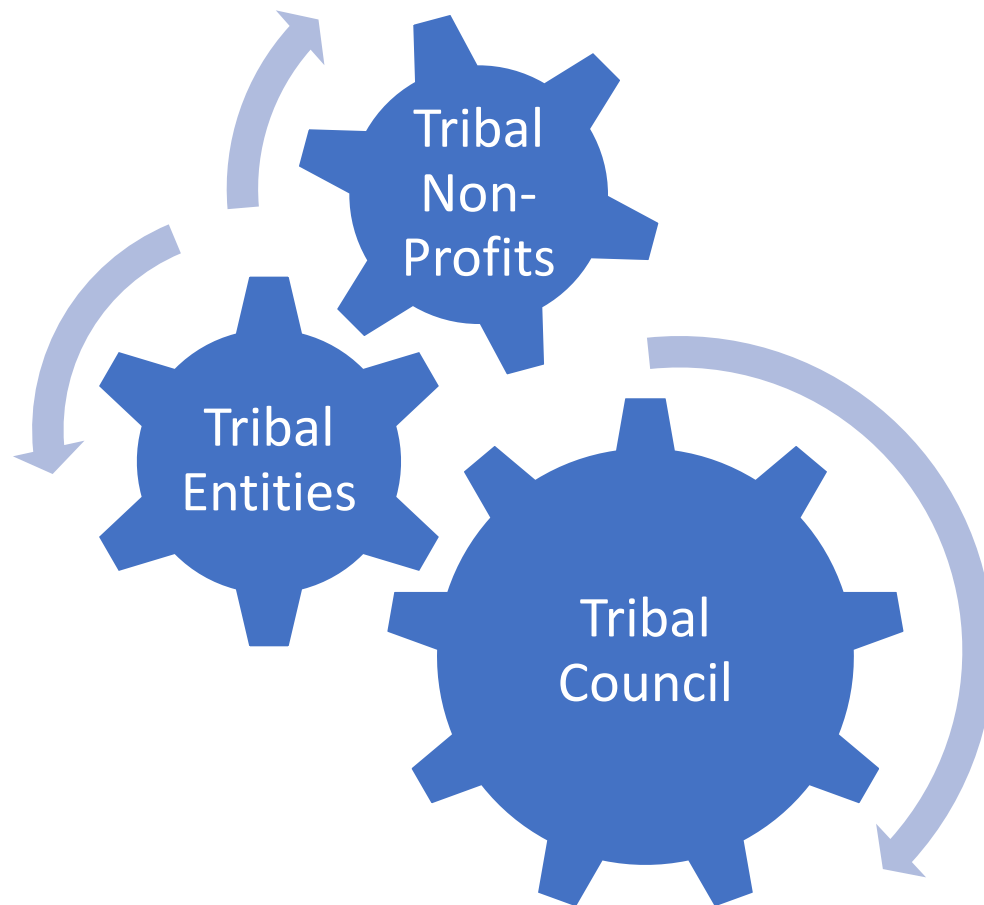
Day Two

- Welcome Back
- Additional Reflections
- Today's Topics
 - Module 7 – Tribal Governments
 - Module 8 – The “Non-CDFI Fund Feds”
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Module 7
Funder Spotlight:
Tribal
Governments

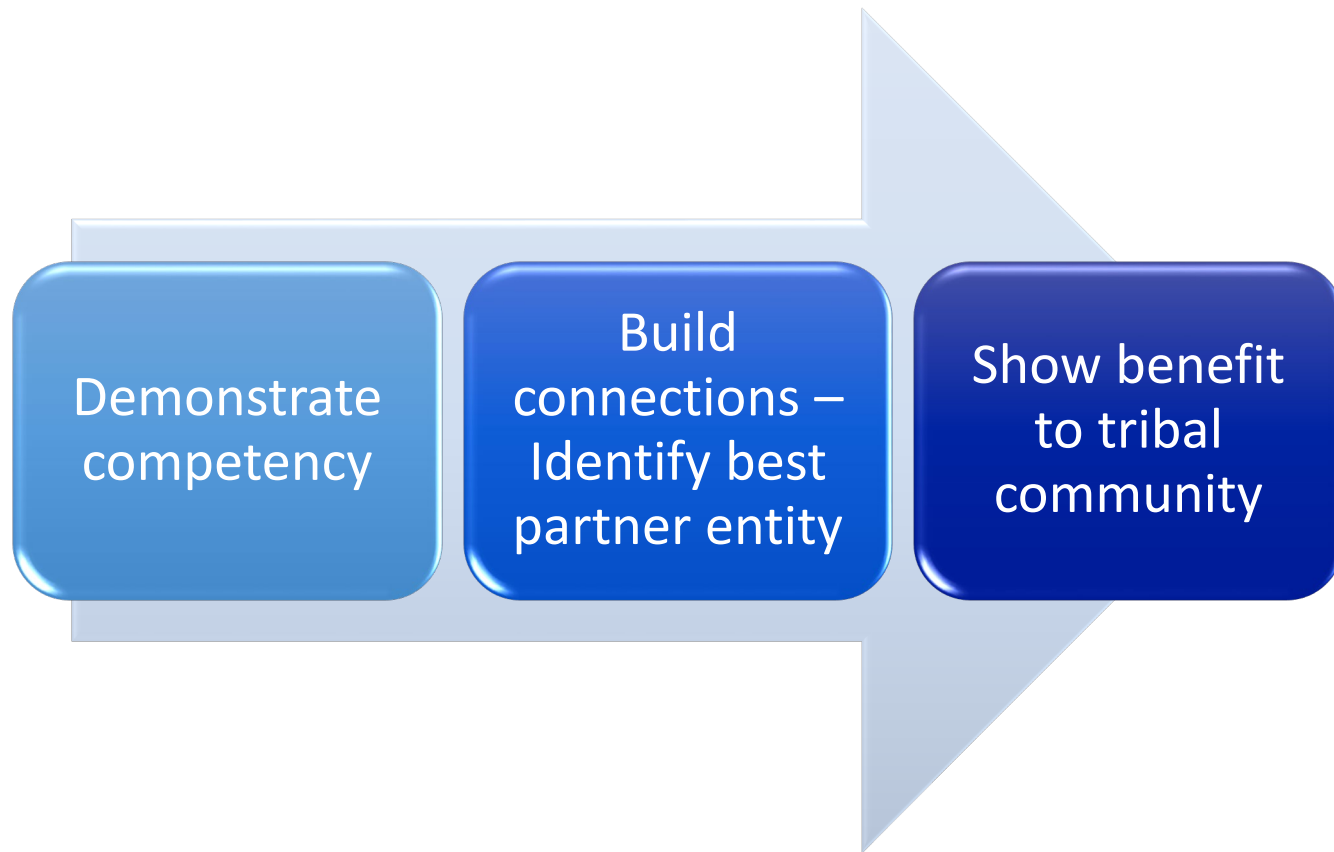
Tribal Government Partners



Tribal Funding: Considerations

- Limited underwriting and reporting
- Funding tailored to Native CDFI needs
- Local relationships
- Usually restricted funds for tribal members

The Approach: Building Tribal Relationships





Module 8

**Funder Spotlight:
The “Non-CDFI
Fund” Feds**

Federal Programs: Non-CDFI Fund

ANA

- Social and Economic Development Strategies (SEDS)

USDA

- Intermediary Relending Program (IRP)
- Rural Business Development Grant (RBDG)

SBA

- Microloan Program
- Program for Investment in Micro Entrepreneurs (PRIME)

EDA

- RLF Program
- Economic Adjustment Assistance

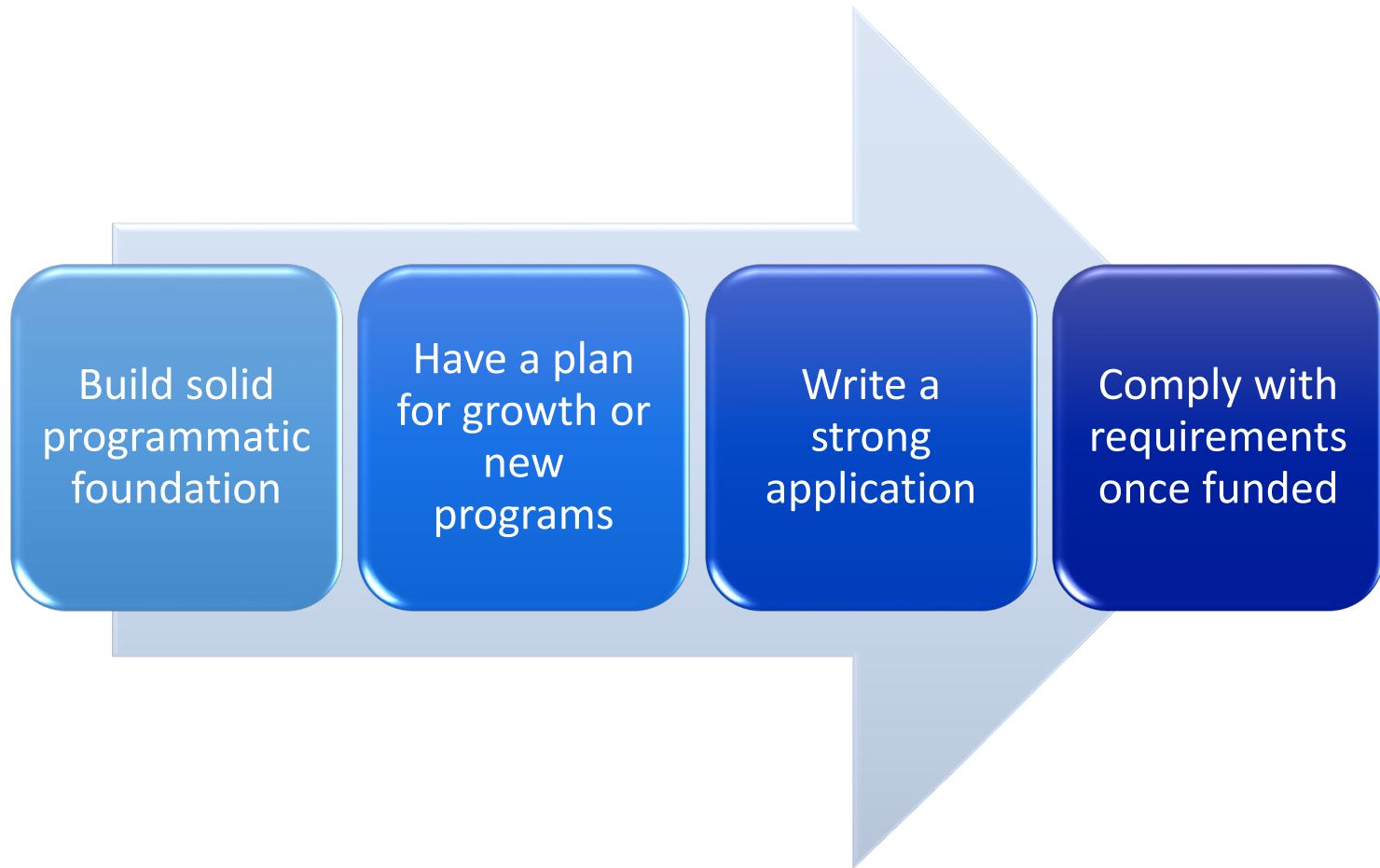
FHLB

- Affordable Housing Program (AHP)

Federal Funding: Considerations

- Larger amounts of capital available
- Typically not numbers focused
- Usually activity/ outcome focused
- Multi-year funding available
- Applications require significant preparation
- Extensive reporting often required
- Funds usually restricted
- Non-federal match usually required

The Approach: Obtaining Federal Funding



FEDERAL ACRONYMS

CRA

Community
Reinvestment
Act

ANA

Administration
for Native
Americans

SBA

Small Business
Administration

EDA

Economic
Development
Administration

IRP

Intermediary
Relending
Program

SEDS

Social and
Economic
Development
Strategies

PRIME

Program for
Investment in
Micro
Entrepreneurs

RLF

Revolving Loan
Fund

RBDG

Rural Business
Development
Grant

Native CDFI

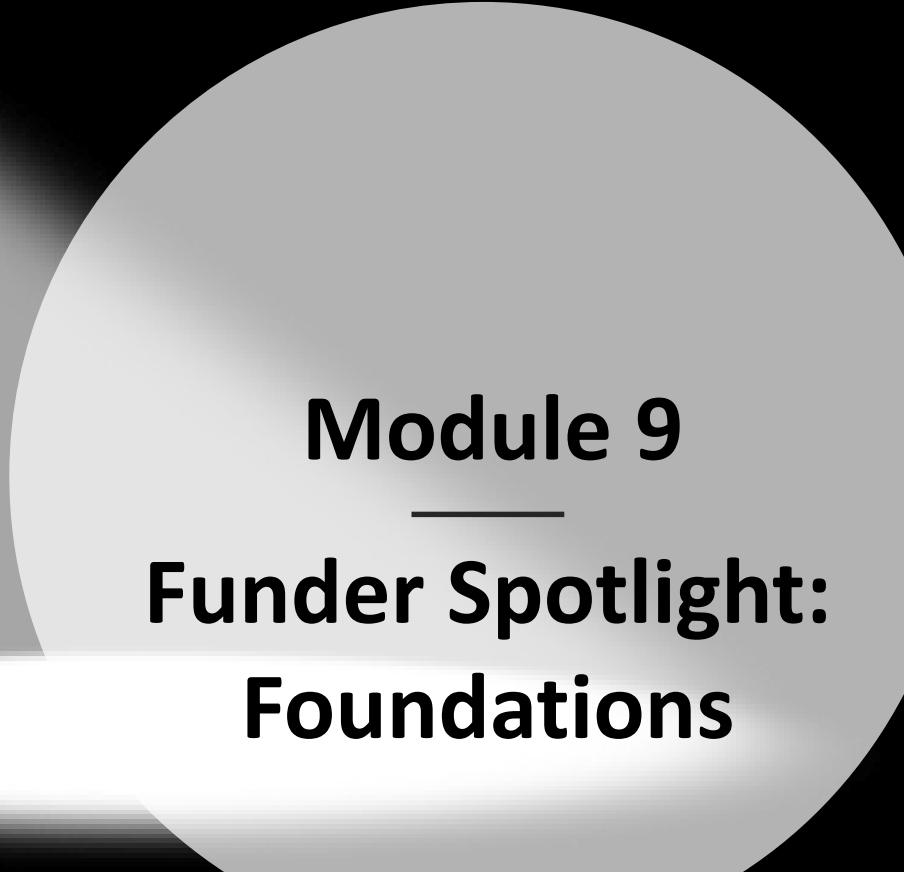
Native
Community
Development
Institution

FHLB

Federal Home
Loan Bank

AHP

Affordable
Housing Program



Module 9

Funder Spotlight: Foundations

Foundation Funding for CDFIs

- Grants
 - Smaller to start
 - Can get large and multi-year after developing strong relationships
- Technical Assistance / Guidance
 - Either from foundation staff or connections to other CDFIs and organizations
- Program Related Investments (PRI)
 - 1-4%; fixed rate, unsecured; 5-10 years
 - Primary purpose is to accomplish one or more of the foundation's exempt purposes

Evaluation Criteria: What Do Foundations Look For?

- Organizations/projects that align with the foundation's priorities
- Strong Executive Director/leader who connects with the CDFI's mission
- Plan for growth or new products/services (usually)
- Organization with a good track record, demonstrated outcomes/impacts
- For PRIs, solid financial health and loan portfolio

Foundation Funding: Considerations

- Highly relationship driven
- Application and reporting is usually simple
- Funds tend to be more flexible
- Underwriting more stringent for PRIs
- May be restricted funds

The Approach: Building Foundation Relationships





Module 10

Funder Spotlight: Religious Orgs

Religious Organization Funding for CDFIs

- Capacity Building Grants
 - Strategic/business planning
 - Building staff and board capacity
- Lending Capital Loans
 - 1-3%; fixed rate, unsecured; usually <5 years, but often renewed; interest only paid quarterly or annually
 - Typically smaller amounts of \$5K-\$25K, but could be larger for national religious orgs
 - Primary purpose is to help finance very low income individuals

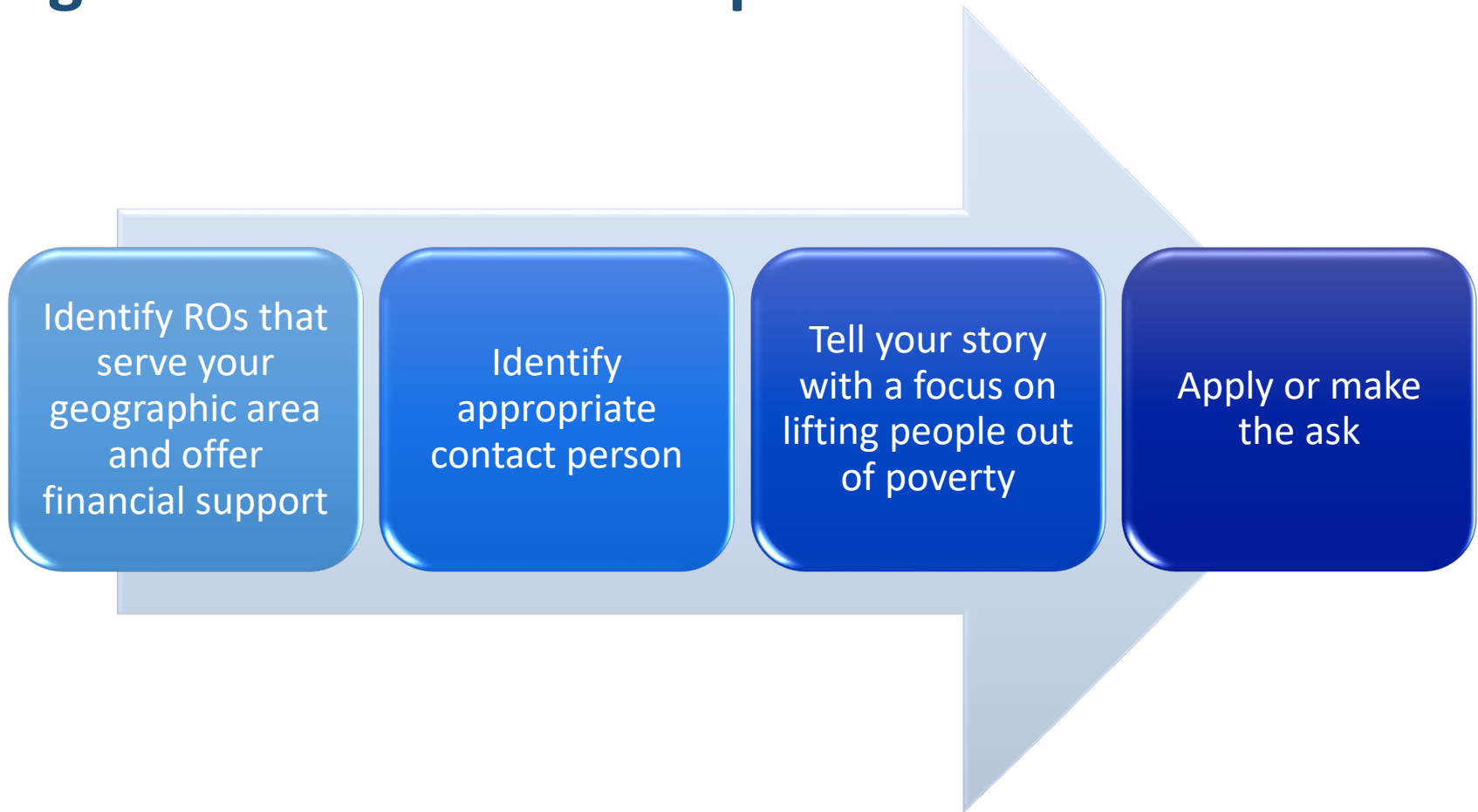
Evaluation Criteria: What Do Religious Organizations Look For?

- Lifting people out of poverty
- Board that represents the target market (e.g., low-income, Native American)
- For loans, solid financial health (they do want to get their money back!)

Religious Organization Funding: Considerations

- Application and reporting is very simple
- Lending investments are unsecured and unrestricted
- Usually very low cost funds
- Often required to have majority low-income people on the board
- May require you complete strategic plan or some other planning / training as part of their funding
- Investments are often shorter-term

The Approach: Building Religious Organization Relationships





**Canvas Working Session:
Banks, Tribes, Feds, Foundations,
Religious Organizations**



Module 11

Citizen Potawatomi
Community Development
Corporation Bus Tour



Reflections and Wrap Up

Share a reflection about
what you learned today.

Day Three Preview

- Module 12 – Other Funders
- Module 13- Other Capitalization Tools & Strategies
- Module 14 – Making the Ask

Day Three

- Welcome Back
- Additional Reflections
- Today's Topics
 - Module 12 – Other Funders
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Module 12

Funder Spotlight: Other Funders

Other Funders – CDFI Intermediaries

Examples

- OFN
- Oweesta
- Craft 3
- NeighborWorks Capital

Funding

- Debt lending capital
- TA/Expertise
- Grants for capacity building

Considerations

- Flexible partners
- Reporting usually less onerous
- Interest rate higher cost

Other Funders – Corporations

Examples

- Larger biz serving your geographic area
- Biz who provide products/services that your target market buys
- Biz who employ your target market
- Local businesses

Funding

- Contributions for specific projects
- Sponsorships

Considerations

- Unrestricted funds
- Application and reporting almost non-existent
- Usually smaller funding amounts
- May have to educate biz about CDFI
- Provide PR opportunities

Other Funders – Individuals

Examples

- Wealthy individuals in your community/state
- Successful entrepreneurs
- Crowdfunding

Funding

- Low cost debt lending capital
- Usually \$1K-\$10K
- IR from 0-4%
- Terms usually 1-3 years
- Crowdfunding for project or activity

Considerations

- Unrestricted, flexible funds
- No application
- No reporting, (but stay in touch)
- Short-term
- Time consuming to develop and manage

Other Funders – Institutional Investors

Examples

- Insurance companies
- Pension Funds
- Universities
- Investment companies (Charles Schwab, Trusts, etc.)

Funding

- Debt lending capital
- Usually >\$1 million
- IR from 2-4%
- Terms usually 1-5 years

Considerations

- Much larger investments
- Difficult to access for small CDFIs
- Look for socially minded investors

Case Studies: Earned Income & Religious Investors



Susan Hammond, Executive Director



Module 13

Other Capitalization Tools & Strategies

How Do Loan Guarantees Work?

- Third party legally agrees to cover a portion of a borrower's loan if the borrower defaults
- Must meet certain underwriting requirements of the guarantor
- Guarantor is usually paid a fee(s)
- If loan defaults, lender must go through its collection process before collecting the guaranteed repayment

How Do Loan Guarantees Work?, cont...

BENEFITS

- Mitigate portfolio risk
- Increased funder confidence
- Increased lending limits
- Serve more customers
- Liquidity/capitalization opportunities

DRAWBACKS

- Guarantor's fees
- Lender's fees may need to be reduced
- Increased paperwork
- Complexity in packaging
- Reduced flexibility
- Possible increased borrower costs
- Ongoing reporting
- Time/efficiency

How Do Loan Guarantees Work?, cont...

- OTHER CONSIDERATIONS:
 - Lending experience
 - Capacity
 - Size of portfolio / Economies of scale
 - Outsourcing

Types of Loan Guarantees

BUSINESS/AG

- SBA
- BIA
- USDA
- Tribal
- State

HOUSING

- HUD
- USDA
- Tribal

SBA Guarantee Programs

COMMUNITY ADVANTAGE (7A)

- 85% guarantee <\$150k; 75% guarantee >\$150K
- Max loan amount of \$250K
- 2% fee to SBA, annual 0.5% fee
- Borrower needs 10% equity
- Can't charge origination fee; can charge TA fee up to \$2500
- Hold 5% cash LLR
- Any business use

504

- 40% CDC, 50% bank, 10% borrower equity
- Up to \$5 million
- CDC takes 2nd lien to bank
- CDC receives servicing fee
- Annual <1% fee to SBA
- 100% of CDC loan guaranteed
- For fixed assets
- Rural initiative

SBA – Lender Eligibility

7a – COMMUNITY ADVANTAGE

- Be a CDC, CDFI, or SBA microlender
- 60% of loans to underserved markets
- At least 3 years of lending
- Compliance with applicable state lending laws
- Annual audits, no material weaknesses
- Operational strength
- Preferred lender status

SBA – Lender Eligibility, cont...

504

- Certified CDC by SBA
- Non-profit corporation
- FT professional management and FT professional staff
- Minimum level of lending
- Operational strength
- Must have annual audits

Bureau of Indian Affairs (BIA) Guarantee & Insurance

GUARANTEE

- Up to 90% guarantee up to \$500K+
- 2% fee
- Up to 30-yr term
- At least 51% Native-owned
- Borrower needs 20% tangible equity in the project
- Can take up to 30 days for approval

INSURANCE

- 90% up to \$250K or 15% of aggregate that is insured
- Fee 1% of insured part
- No min underwriting criteria
- One simple application to get approved
- Send copy of loan docs w/in 30 days of loan closing to get insurance

USDA Business & Industry

GUARANTEE

- 60-90% guarantee up to \$5 million
- 3% fee, annual 0.5% fee
- Up to 30-yr term
- In rural area <50,000 residents
- Borrower needs 10-20% tangible equity on balance sheet

LENDER ELIGIBILITY

- Regulated lenders, experienced CDFIs
- Track record serving rural areas
- Track record commercial lending

USDA Farm Service Agency

GUARANTEE

- Up to 95% guarantee up to \$1.75 million
- EZ Guarantee up to \$100K (\$50K for microlenders)
- 1.5% fee to USDA
- Interest rate restrictions
- Up to 14-30 days for approval
- Start-up and existing farmers and ranchers

LENDER ELIGIBILITY

- Standard lender: Originated at least 20 business loans of \$50K or less w/ loss rate <3%
- Microlender (incl CDFIs): currently no ag lending req'd
- Organization or personnel experience in ag lending
- Examination by oversight entity (CDFIs qualify)
- Local to lending area

Other Non-Housing Guarantors

TRIBAL

- Confederated Tribes of the Colville Reservation – Cash LLR w/ NNDF
- Citizen Potawatomi – escrowed CD w/ CPCDC

STATE EXAMPLES

- WI Housing Economic Development Agency
- Wyoming Business Council
- Montana Dept of Commerce

HUD 184

GUARANTEE

- 100% guarantee; loan limits by county
- 1.5% fee; .25% PMI
- Enrolled tribal members

LENDER ELIGIBILITY

- Receive Section 184 training

USDA Single Family Housing

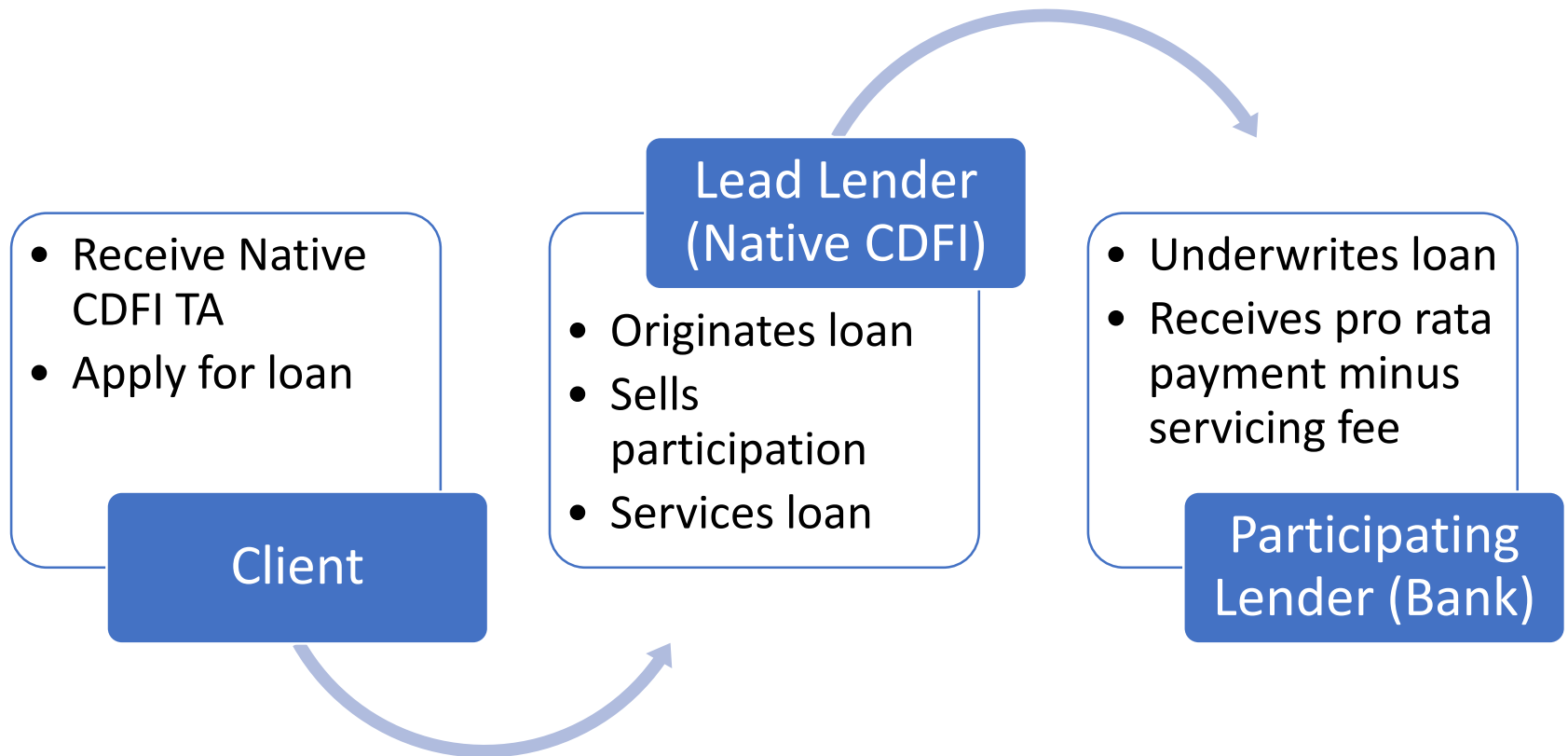
GUARANTEE

- 90% guarantee for LMI qualified families
- 1.5% fee
- 30-yr term
- Capped IR
- Located in rural area

LENDER ELIGIBILITY

- Expertise in making and servicing single family mortgage loans

Loan Participations



Selling on the Secondary Market

- Sell all or a portion of a loan to a third party
- Banks can receive CRA credit
- Could receive premium
 - SBA guaranteed loans receive 8-10% premium
- Often retain servicing (for a fee)

Selling on the Secondary Market, cont...

BENEFITS

- Liquidity/capitalization opportunities
- CDFI receives premium
- Receive servicing income

DRAWBACKS

- May be required to maintain a cash LLR
- Increase overall portfolio risk
- More difficult to modify loan
- Need short-term capital

Secondary Market: ROI

Back of the Envelope Return				
SBA Loan Sale End of Year 1				
Loan Amt:	100,000	90%	10%	
		90,000	10,000	
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Premium	10%	-	9,000	
Servicing	1%	-	900	900
IR - SBA Loan	8%	8,000	800	800
IR - new \$90K L	8%	-	7,200	7,200
		8,000	17,900	8,900
	ROI	8.0%	17.9%	8.9%

Secondary Market: Small Business Loans

- Federally guaranteed loans
 - Sell the guaranteed portion
 - Notify federal agency
 - Third party brokers
- Non-guaranteed loans
 - Banks for CRA credit (SBA Microloans)
 - Other CDFIs

A E R I S

- Rates CDFI financial strength and impact performance
- Provides bird's-eye view into how investors underwrite and assess CDFI risk
- Promotes a CDFI's commitment to transparency and rigorous performance standards
- Simplifies due diligence process for investors
- Investors currently more interested in whether CDFI is rated than the actual ratings

See <http://www.aerisinsight.com/>



Module 14
Making the Ask

Making the Ask: Key Tools

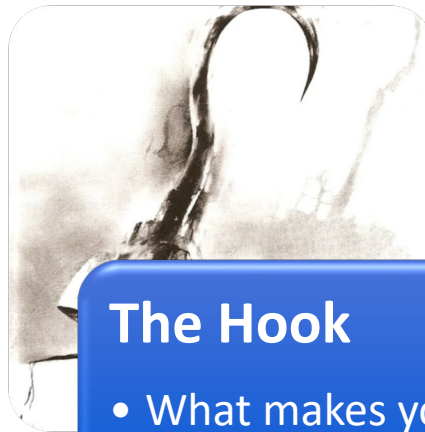
- Elevator Pitch
- Pitch Book
- Investor Prospectus

Start with the Elevator Pitch



The Headline

- Identify yourself
- Describe what your CDFI does



The Hook

- What makes you different?
- What problem are you solving?



The Ask

- What do you want to come out of the interaction?

➤ 60 seconds less

Elevator Pitch: Do's and Don'ts

DO:

- Tell a (short) story
- Demonstrate credibility
- Be passionate
- Be authentic
- Know your audience
- Tell it to everyone
- Practice, practice, practice!

DON'T:

- Use industry jargon
- Talk too fast
- Talk too quietly or too loudly
- Talk over the funder
- Talk too long
- Forget the ask!

Create Your Own Elevator Pitch

- Using the Elevator Pitch Template, create an elevator pitch for your CDFI
- Practice it on your own a couple of times

Now Let's Practice!

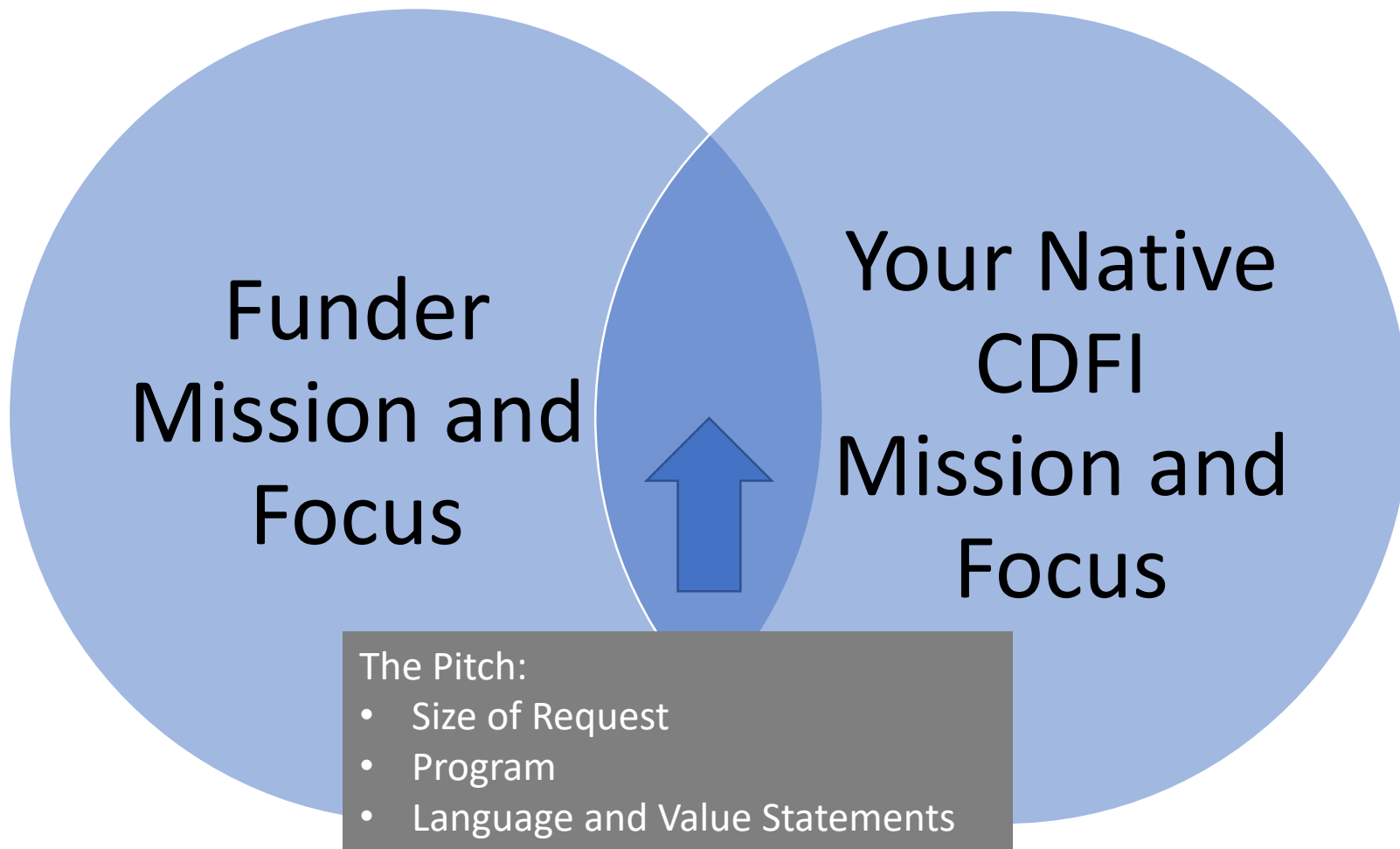
- Funder Speed Dating
 - Get in pairs
 - One person is the “pitcher” and one is the “funder”
 - The “pitcher” gives their pitch to the “funder”, the “funder” then has 30 seconds to provided feedback to the “pitcher” when they're done
 - Then switch roles
- Funders provide the following feedback:
 - One thing the “pitcher” did well
 - One improvement you would suggest

Create a Pitch Book or Proposal

First Step – Understand Your Audience

- What are the problems they care about?
- What are the goals of the funder?
- What is their process for allocating funds or resources?
- What are the metrics they use to measure “success”?
- For the individual you are speaking with, what could get an “aha” reaction?
- What is the best “ask” for the meeting? (money, advice, information, introduction)

Making the Sell



Create a Pitch Book

Second Step – Create Your Pitch Presentation

- Who is your organization?
- What is the problem/challenge your organization solves?
- What is your solution/impact to date with proof points?
- What is your vision for the future and how do you plan to get there?
- How will this provide impact?
- What is the social and financial return on investment?
- What are your management team qualifications?
- What is your “Ask”?

Now That You're Ready for The Ask



HOW MUCH TO
ASK FOR?



WHO MAKES
THE PITCH?



CUSTOMIZE
THE APPROACH



ANTICIPATE
QUESTIONS

Funder Due Diligence: Investor Prospectus

- Mission and History
- Marketing Materials
- Organization Chart
- List of Board of Directors
- Key Staff Resumes
- Financial Information
 - 2-3 years audited financials
 - Interim balance sheet and P&L
 - Financial projections
- Lending Information

After Funding: Maintaining the Relationship


“From small acorns grow mighty oaks.”



Final Tips

- Plan ahead
- Start with your strengths
- Target low hanging fruit
- Tell your story...to everyone!
- Cultivate funder relationships
- Monitor and evaluate...
what's working?



A 3D rendered scene featuring a row of five interlocking gears in yellow, orange, blue, red, and green. Below the gears, three stylized human figures in green, orange, and blue are positioned as if they are working together to assemble or maintain the gear train. The background is a plain, light gray.

Canvas Working Session: Update & Next Steps



Reflections and Wrap Up

- Share a reflection about the course and 1-2 key next steps you will take when you get back to the office.