

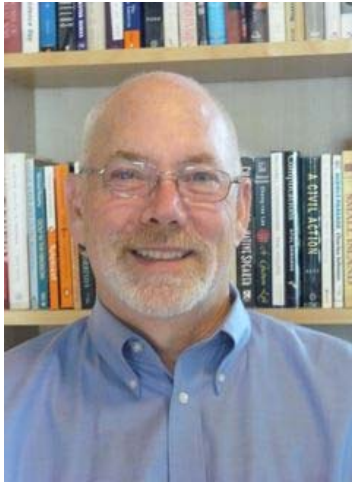


# On the Road to CDFI Investing

Wednesday, December 8<sup>th</sup>, 2010

Start time: 10:00 a.m. PT; noon CT; 1:00 p.m. ET

# Welcome & Introductions



**Moderator:**

**Peter Berliner**  
**Managing Director**  
**PRI Makers Network**



**Presenter:**

Jackie Wardell  
Chief Financial Officer  
Coastal Enterprises Inc.



**Presenter:**

**Paige Chapel**  
**Executive Vice President**  
**CARS™**

# Welcome & Introductions



**Presenter:**

**Mark Constantine**  
Vice President, Strategy,  
Policy, and Learning  
**Jessie Ball duPont Fund**



**Presenter:**

**Christine Looney**  
Program Investment Officer  
**The Ford Foundation**



**Presenter:**

**Tina Castro**  
**Director**  
**Mission-Related**  
**Investments**  
**California Endowment**

# Survey # 1

Please indicate whether you are with a:

- private foundation
- community foundation
- intermediary organization, including CDFIs
- another type of organization

# Topics

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- Intermediary Organizations
- CDFI: Community Development Financial Institution
- CDFI Loan Funds
- CARS<sup>™</sup>: CDFI Assessment and Ratings System

## Survey # 2

Have you made an investment in or worked with an intermediary organization?

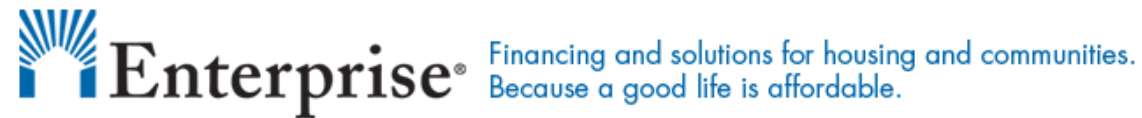
- Yes
- No

# Intermediary Organizations

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Raise and aggregate funds from multiple sources and lend to individuals or organizations.

# Intermediaries





# Community Development Financial Institutions (CDFIs)

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**Mission:** to provide credit and financial services to underserved markets and populations.

# Types of CDFIs

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- Banks
- Credit unions
- Loan funds, e.g.:
  - affordable housing
    - health facilities
    - economic development
    - microenterprise
- Venture capital funds

# Sources of Capital

	<b>Banks</b>	<b>Credit Unions</b>	<b>Loan Funds</b>	<b>General Nonprofits</b>
<b>Private Equity</b>	✓			
<b>Member Investments</b>		✓		
<b>Insured Deposits</b>	✓	✓		
<b>Borrowed Capital</b>			✓	✓
<b>Grants</b>			✓	✓
<b>Profits/Operating Surplus</b>	✓	✓	✓	✓

# CARS™-Rated CDFIs



## INDUSTRY

[Financing](#) [Policy](#) [Brand](#) [Knowledge Sharing](#) [Store](#) [Donate](#) [Press](#) [About](#) [Contact](#)

## Industry &amp; Member News

[CDFI Types](#)[Industry Resources](#)[RSS Feeds](#)[Industry Statistics](#)[CDFI Data Project](#)[Industry Brand](#)[Industry Brochure](#)[Calendar of Events](#)[Job Bank](#)[Community Investing Center](#)**Member Locator**

## CDFI Locator

Community development financial institutions (CDFIs) who are Members of OFN are working in neighborhoods across the United States to provide affordable, responsible credit and to stabilize communities. CDFI customers include: small business, affordable housing developers, community service providers, and individuals who require affordable banking services, including basic checking and savings accounts, responsible alternatives to predatory financial companies, mortgages, and other kinds of loans.

To find an OFN Member in your state, select your state and click on the search button below. See what kind of lending the CDFI provides by looking at Lending Type. For example, if you need a housing loan look for Housing.

Organization Name:

State:

Area(s) Served:

Hold down Ctrl Key to select

# CDFI Investors

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**Tina Castro**  
Director,  
Mission Related Investments  
**The California Endowment**



**Mark Constantine**  
Vice President, Strategy,  
Policy, and Learning  
**Jessie Ball duPont Fund**



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# Management Capacity

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- **Finding Deals**
- **Negotiations**
- **Monitoring**
- **Providing technical assistance**

# Leverage

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- **Attract new dollars**
- **Expand reach**
- **Build capacity**
- **Increase scale**
- **Recycle funds**



# Risk Mitigation

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- **Diversify portfolio**
- **Protect against losses**
- **Identify potential risks  
(CARS™)**

# Challenges

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- **Targeting investments**
- **Control**
- **Cost**



**Jackie Wardell**  
**Chief Financial Officer**



**Coastal  
Enterprises  
Inc.**

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- **Primary market is rural Maine, expanding into other Northeastern states**
- **\$8.4 MM operating budget for FY11**
- **\$715.4 MM in capital committed/deployed**



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Enterprises  
Inc.**

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**PRIs build capacity and  
generate earnings for operations.**

- **Borrow at below-market rates from foundations and relend around market rates to borrowers.**
- **Earnings are used to support fund management and technical assistance.**
- **CEI's reserves against losses.**
- **No loan defaults to date.**



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Inc.**

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## **PRI Uses**

- **Business loans to small, micro and medium enterprises**
- **Natural resource enterprises – fisheries, farms and forests**
- **Community facilities**
- **Affordable housing**
- **Venture capital funds**



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**PRIs expand resources and allow for targeting sectors and larger projects.**

**Example: CEI's Child Care Development Project**

- **Launched in 1988**
- **Over \$24 million mobilized for 157 loans to family and center-based child care providers serving 4,376 kids**



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## **PRIs at CEI: A Little Goes a Long Way\***

**A PRI of \$2 million was recycled:**

- **Providing total Fund participation of \$3 million**
- **CEI participation of \$4.8 million**
- **Leveraging \$32 million in additional funds**
- **Financing more than 70 transactions**
- **Creating/retaining more than 2,000 jobs**

**\* Primary sources: Ford, MacArthur, Kellogg, Heron, Betterment, Sandy River, religious institutions**





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**Example: A \$2 Million PRI**

- **10-year term**
- **1% interest rate**
- **Interest only with balloon repayment**

**Also received a \$500,000 (capital grant) to invest in CEI Ventures Inc. LP and a \$300,000 2-year operations grant.**



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## **Some Outcomes from the Total PRI**

- **23 businesses > \$50K, Leverage: \$27.5 million**
- **41 microenterprises < \$50K, Leverage: \$4.6 million**
- **10 affordable homes for 30 family members**
- **3 child care facilities financed, serving 388 kids**
- **14 venture fund investments in a \$5 million fund**
- **More than 2,500 jobs created and retained**

## Survey # 3

Are you familiar with CARS?

- Yes, I've used it.
- Yes, I'm familiar with it.
- No, what is it?

## PURPOSE OF CARS™

- CARS™ is a comprehensive third-party ratings system of non-depository CDFIs. Launched in 2004 as an independent project of Opportunity Finance Network.
- To bring greater *transparency* and *standardization* to the field, and over time, increase the amount of capital available to CDFIs.
- CARS™ assesses and rates a CDFI's overall **financial strength** and **impact performance**.

## CURRENT ACTIVITY

- Ratings reports currently available for 60 non-depository CDFIs—approximately one-third of all on-balance sheet assets.
- More than 40 investors use CARS™ ratings reports to augment their due diligence and/or to identify new investment opportunities.
- Some CARS™ subscribers also use the ratings process as a capacity building exercise for their CDFI partners.

## WHAT CARS™ RATES

- **Impact Performance Rating** measures how well a CDFI *does what it says it's trying to do*.
  - AAA (highest) to B (lowest)
  - Recognize role of policy change
- **Financial Strength & Performance Rating** assesses overall *creditworthiness*.
  - Based on a CAMEL analysis similar to the one regulators use for banks.
  - 1 (highest) to 5 (lowest)
  - CARS™ does not use benchmarks.



## WHY CARS™ RATINGS ARE IMPORTANT

- Extremely demanding five-month process for the CDFI.
- Demonstrates the CDFI's commitment to complete transparency and a willingness to be held accountable to rigorous performance standards.
- Rated CDFIs consistently focus on strengthening CARS™-identified weaknesses, which over the long term, will lead to more resilient partners and stronger investment opportunities.



## FOR MORE INFORMATION

**Paige Chapel**

206.328.6110

[pchapel@CARSratingsystem.net](mailto:pchapel@CARSratingsystem.net)

[www.CARSratingsystem.net](http://www.CARSratingsystem.net)





# Current CARS™ Benefits for Network Members

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- **Sample Ratings Analysis**
- **Access to the advanced “CDFI Locator” function on the CARS™ website**
- **Discounted subscription rates**

# Current CARS™ Benefits for Network Members

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## Discounted subscription rates:

- **3 years of reporting for a single CDFI for \$2,000 (*regular price = \$2,500*)**
- ***3 years of reporting for any three rated CDFIs for \$5,000 (regular price = \$7,000)***
- ***12-month subscription with unlimited access to all CARS™ ratings reports and annual reviews for \$10,000 (regular price = \$15,000)***

# Resources

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**FSG Social Impact Consultants**

***Aggregating Impact: A Funder's Guide to Mission Investment Intermediaries***

**[www.fsg.org](http://www.fsg.org)**

**Opportunity Finance Network**

**[www.opportunityfinance.net](http://www.opportunityfinance.net)**

**CARS™**

**[www.carsratingsystem.net](http://www.carsratingsystem.net)**

**PRI Makers Network**

**[www.primakers.net](http://www.primakers.net)**

# Q & A



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