On the Road to CDFI Investing

Wednesday, December 8th, 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

• Intermediary Organizations

• CDFI: Community Development Financial Institution

• CDFI Loan Funds

• CARS™: CDFI Assessment and Ratings System
Survey # 2

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

• Yes

• No
Intermediary Organizations

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

- Calvert Foundation
- Capital Link
- Enterprise®
- E+Co
- Living Cities
- RSF Social Finance
Community Development
Financial Institutions (CDFIs)

Mission: to provide credit and financial services to underserved markets and populations.
Types of CDFIs

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

<table>
<thead>
<tr>
<th>Sources of Capital</th>
<th>Banks</th>
<th>Credit Unions</th>
<th>Loan Funds</th>
<th>General Nonprofits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Member Investments</td>
<td></td>
<td>✓</td>
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<tr>
<td>Insured Deposits</td>
<td>✓</td>
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<tr>
<td>Borrowed Capital</td>
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<td></td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Grants</td>
<td></td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Profits/Operating Surplus</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>
CARS™-Rated CDFIs

CHICAGO COMMUNITY LOAN FUND
Helping create communities where people thrive

COASTAL ENTERPRISES INC.

FLORIDA COMMUNITY LOAN FUND

hdf
Housing Development Fund

LOS ANGELES LDC

Nonprofit Finance Fund

Opportunity Fund
working capital for working people

TRF
Capital at the point of impact.

VILLAGE CAPITAL CORPORATION
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.
CDFI Investors

Tina Castro  
Director,  
Mission Related Investments  
The California Endowment

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

Christine Looney  
Program Investment Officer  
The Ford Foundation
Management Capacity

• Finding Deals
• Negotiations
• Monitoring
• Providing technical assistance
Leverage

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

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

• Targeting investments

• Control

• Cost
Jackie Wardell
Chief Financial Officer
Coastal Enterprises Inc.

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

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

www.CARSratingsystem.net
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

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206.328.6110
pchapel@CARSratingsystem.net
www.CARSratingsystem.net
Current CARS™ Benefits for Network Members

• Sample Ratings Analysis

• Access to the advanced “CDFI Locator” function on the CARS™ website

• Discounted subscription rates
Current CARS™ Benefits for Network Members

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

FSG Social Impact Consultants
www.fsg.org

Opportunity Finance Network
www.opportunityfinance.net

CARS™
www.carsratingsystem.net

PRI Makers Network
www.primakers.net
Q & A

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