Strengthening Small & Emerging CDFIs

Models for Growth: The CDFI of the 21st Century

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December 16, 2013

CDFI FUND CAPACITY BUILDING INITIATIVE

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CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.

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Strengthening Small and Emerging CDFIs Task Order

- **Goal**: Increase capacity of more than 70 CDFIs to strengthen financial sustainability and increase community impact.
- **Focus**: Business models that work to support sustainability and impact, understanding stages of organizational growth, and change management.
- **Approach**: Five trainings, five mentored cohorts, one-to-one technical assistance, virtual resource bank.
- **Results**: Each CDFI developed an Action Plan with implementation supported by mentored cohorts.

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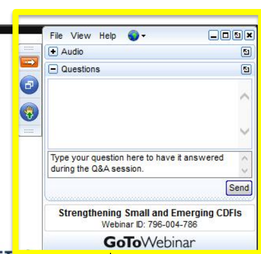

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The Good News

- CDFIs have been "stepping into the breach" to address lending-related needs during the recession – and have paid a financial price for doing so – but that price has been relatively small and sufficient reserves were set aside to offset the small increase in delinquencies and defaults.
- CDFI portfolio performance has been mixed, but only for a minority of organizations is it an issue that significantly affects overall financial performance. Again, most CDFIs were sufficiently protected through adequate reserves.

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The Maybe Not-So Great News

- Significant scale effects exist in all sectors of the CDFI industry – i.e., Larger CDFIs showed better performance measures.
- Larger CDFIs were more efficient, which was evidenced by:
  - Lower combined interest and operating expenses
  - Higher deployment rates
  - Lower charge-offs
  - Greater demonstrable impact

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CDFI Models to Improve Scale

As part of larger CDFIs' growth strategies, many have developed business models to improve internal efficiencies and create more demonstrable community impacts. Such models have involved the following:

- Collaborations with other CDFIs and various **network organizations**
- Implementing **shared service platforms**
- **Outsourcing** a portion of their operations to a 3rd party service provider

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Examples of CDFI Models

- Network Organizations
  - ROC USA
  - Federation of Appalachian Housing Enterprises
  - Housing Partnership Network
  - ACCION
  - Lenders One
- Shared Services
  - Craft3
  - The Reinvestment Fund & Low-Income Investment Fund Collaboration
  - Self-Help Federal Credit Union
- Outsourcing
  - Community Reinvestment Fund
  - ACCION Texas' MMS
  - OnDeck

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Network Organizations

- What is a network organization?
  - A group of legally independent CDFIs that use various methods of coordinating their activities and interactions in order to operate like a larger entity and serve more people more efficiently.
- What are the benefits of network organizations?
  - Networks can be difficult to organize, but very effective when managed well.
- When should CDFIs consider network organizations?
  - When the CDFIs have common goals, activities, and products.

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ROC USA Network (ROC USA)

- Partnership among New Hampshire Community Loan Fund, The Corporation for Enterprise Development (CFED), and NeighborWorks America to support ROC and help organize the supply and demand for manufactured housing.

- Network of nonprofit community development organizations that enables resident ownership of manufactured housing parks.

- ROC USA operates three subsidiaries:
  - A national network of nine TA providers.
  - ROC USA Capital provides home financing and serves as a market-based system change strategy.
  - Corporation for Enterprise Development promotes policy change.

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Federation of Appalachian Housing Enterprises (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, and HR

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Housing Partnership Network (HPN)

- National network of 98 nonprofit members, primarily large regional developers and lenders.
- Helps members take a more social enterprise approach to innovation and learning.
- Initially organized as a community of practice, HPN is committed to innovation, performance of the sector, and performance of its members as businesses.
- Offers its members such services as:
  - Peer exchange
  - Policy development
  - Cooperative enterprise

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ACCION

- Network of 63 international and domestic affiliate microenterprise organizations that provide over 50,000 loans annually, with an average size of $8k.
- In 2011 all the affiliates began working under a unified brand, which helps to leverage their collective histories.
- The new model helps improve scale related to:
  - Marketing
  - Branding
  - Program implementation
  - Standardized reporting and data analysis

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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 fulfillment, technology and business products
  - Standardized documentation
  - Training
  - Social networking

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Shared Services

- What are shared services?
  - Shared services allow CDFIs to centralize back-office and other operations that are used by multiple CDFIs.
- What are the benefits of shared services?
  - Allows CDFIs to create efficiencies and eliminate redundancy.
- When should CDFIs consider shared services?
  - When multiple CDFIs are performing the same functions but at low-quality and high cost.

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Craft3

- Merger of three CDFIs in 2007 – Craft3 (formally Enterprise Cascadia), Enterprise Pacific, and Cascadia Revolving Fund of Seattle – into a regional CDFI.
- The impact of the merger included:
  - Doubling the size of Craft3's capital fund to $28 million
  - 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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The Reinvestment Fund (TRF) and Low-Income Investment Fund (LIIF) Collaboration

- The Kresge Foundation wanted to invest in sector learning, so encouraged TRF to partner with LIIF and follow an open-source process for peer learning for the financing of community health center (CHC) projects. (2010)
- As a result of the market analysis, the two 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.

Self-Help Federal Credit Union (SHFCU)

- SHFCU was created in 2008 through mergers with seven credit unions throughout CA, and it has become the fastest growing CU in the country with $106 million in assets, 10 branches, and 52,000 members.
- Benefits of the merger:
  - More services and better pricing for members.
  - Access to ATM networks.
  - Mortgage loans and other community facility loans now available.
  - Systems consolidation to increase operational efficiencies.
  - Experienced management for smaller credit unions.
  - Self-Help able to raise uninsured secondary capital investments from government and social investors – creating stronger institutions that can grow.

Outsourcing

- What is outsourcing?
  - Outsourcing is the contracting out of a business process to a third-party.
- What are the benefits of outsourcing?
  - It can reduce costs and allow staff to focus on more important issues for the CDFI.
- When should CDFIs consider outsourcing?
  - When you can access better service for lower cost (e.g., loan servicing).

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Outsourcing Providers

- **Community Reinvestment Fund (CRF)**: CRF 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
  - Various types of back-office support including accounting, compliance, and investor reporting
- **ACCION Texas' Microloan Management System (MMS)**: A web-based platform for business loan originations, which allows for standardized underwriting and approval.
- **OnDeck**: Offers CDFIs a platform for streamlined underwriting, approval, and loan servicing of working capital loans.

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A New Model for CDFIs?

- There is no "one size fits all" model of CDFI – but, in general, the CDFI field will serve more people and communities in need through:
  - Increased collaboration and shared infrastructure
  - Collaborative operating networks

What are the impediments to building infrastructure and collaborative networks (i.e., costs, other)?

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The CDFI of the Future?

CDFIs will have access to a networked operating platform that offers centralized operations for such functions as:

- Finding new co-lending opportunities
- Selling loans on the secondary market
- Identifying impact investors
- Discounted purchasing of insurance, supplies, credit reports, and loan underwriting/servicing systems
- Developing a customized marketing campaign for new product launching
- Comparison shopping for 3rd party loan servicing agents
- Training and development for staff

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So how do we get there?

Key questions the CDFIs must ask themselves:

- How do we fund it?
- Who will organize it?
- Do we really want it?

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QUESTIONS?

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Strengthening Small and Emerging CDFIs Winter Webinar Series

- **Innovative Business Models to Strengthen Sustainability and Impact** — Dec 5
  - *Ginger McNally,* Opportunity Finance Network
- **Models for Growth – the CDFI of the 21st Century** — Dec 16
  - *Michael Swack*, The Carsey Institute
- **The Four Stages of CDFI Growth** — Jan 8
  - *Adina Abramowitz,* Consulting for Change
- **Capitalization: Raising Debt and Equity for CDFIs** — Jan 21
  - *Michael Swack*, The Carsey Institute
- **Leading Organizational Change** — Feb 5
  - *Pam Porter*, Opportunity Finance Network

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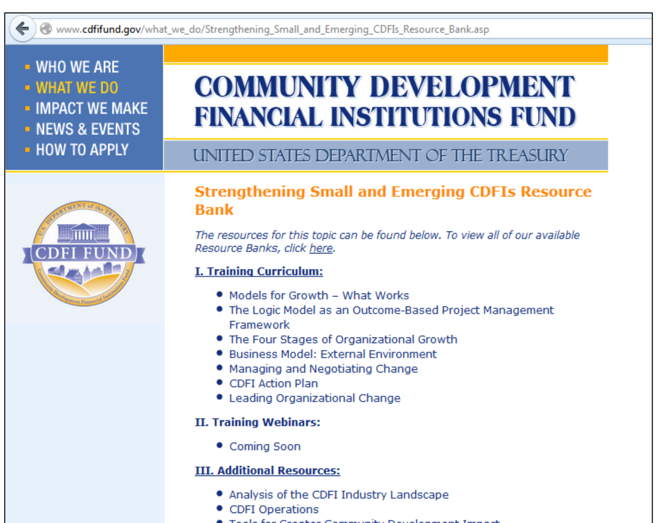
CDFI Fund's Virtual Resource Bank


www.cdfifund.gov/what_we_do/Strengthening_Small_and_Emerging_CDFIs_Resource_Bank.asp

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- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Strengthening Small and Emerging CDFIs Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click here.

I. Training Curriculum:

- Models for Growth – What Works
- The Logic Model as an Outcome-Based Project Management Framework
- The Four Stages of Organizational Growth
- Business Model: External Environment
- Managing and Negotiating Change
- CDFI Action Plan
- Leading Organizational Change

II. Training Webinars:

- Coming Soon

III. Additional Resources:

- Analysis of the CDFI Industry Landscape
- CDFI Operations
- Tools for Greater Community Development Impact

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