Expanding CDFI Coverage in Underserved Areas

Understanding CDFI Impact

Expansion by Existing CDFIs
Kansas City, MO

August 19, 2015

CDFI FUND
CAPACITY BUILDING INITIATIVE

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Overview

- Introduction to Impact Data

- Getting Started: Planning, Goal Setting, and Strategy Alignment

- Impact Data and CDFI Culture

- Impact Measurement Defined

- Primary Data and Secondary Data: Putting it Together

- Data Collection Systems, Implementation, and Quality Control

- Findings from "Create Jobs for USA"

- Best Practices & Recommendations

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Goals of the Module

- Understand the vocabularies and frameworks for impact data collection.

- Learn how to align impact measurement with strategic goals.

- Build internal culture of impact data collection.

- Identify processes and systems to streamline data collection/reporting.

- Enhance skills to communicate your CDFI's work.

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Introduction to Impact Data

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What is Impact Data?

- Impact Data combines the:
  - **Output** of your CDFI (e.g. number of loans, dollar amount of loans) with
  - **Outcomes** of your activity (e.g. jobs created, businesses started)

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What is Collected?

Utilizes **primary** and **secondary** data to further strengthen mission-strategy alignment.

Primary Data	Secondary Data
Collected from firsthand experience (in person or via loan documents).	Collected and reported by a third party such as government agencies, proprietary, or academic sources.

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Why Do We Collect Impact Data?

Internal Benefits

- Understand **how effectively you are serving** your community

- Build **an internal culture** around your mission

- Ensure there is **internal alignment** of strategies and operations that will help you achieve mission-related goals

- **Better Understand** your customers

External Benefits

- Satisfy regulatory or funder reporting requirements

- **Increase competitiveness** for external resources programs by demonstrating to stakeholders your ability to deliver on mission

- **Strengthen the effectiveness** of your marketing & communications strategy (**tell your CDFI's story** with greater credibility)

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Getting Started: Planning, Goal Setting, and Strategy Alignment

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Planning: Be Intentional

- **Intentionality**: Intentionality is a critical factor in creating an effective impact assessment system. Taking intentional, but achievable steps, is critical to long term success.

- **Planning and Goal Setting**: CDFIs with the most robust impact data collection systems engage in planning processes to identify their community impact goals before identifying impact metrics to collect. Think ahead to how you will measure the impact of your activities to expand coverage in underserved areas.

This planning process is both interrelated with and an outgrowth of broader strategic planning for your CDFI.

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Planning: Be Intentional

- **Alignment**:
  - It is critical that products, services, and delivery systems align with strategic priorities. Review, revise to sharpen your focus on expansion to underserved areas.
  - Examine current data collection efforts. Do the data demonstrate if you've achieved your goals?

This planning process is both interrelated with and an outgrowth of broader strategic planning for your CDFI.

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Planning & Designing Your CDFI's "Feedback Loop"

Create an internal feedback loop for collecting, reviewing, and analyzing data to better understand customers and inform future strategies

1. Mission: Define your mission and desired positive change
2. Goal Setting: Set impact goals
3. Products and Services: Review for alignment with mission and impact goals
4. Delivery Strategies: Review for alignment with mission and impact goals
5. Outputs: Select outputs that align with key goals
6. Outcomes: Select outcomes that align with key goals

1. Mission

2. Goal Setting

3. Products and Services

4. Delivery Strategies

5. Outputs

6. Outcomes

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Step One: Define Your Mission and Your Desired Change

- What are you trying to accomplish in your community?

- Step 1: Examine your mission statement

- Step 2: Identify the positive change(s) you are trying to produce
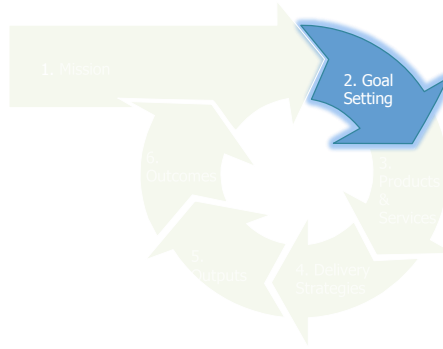
- Step 3: Do they match up? Adjust as needed

1. Mission
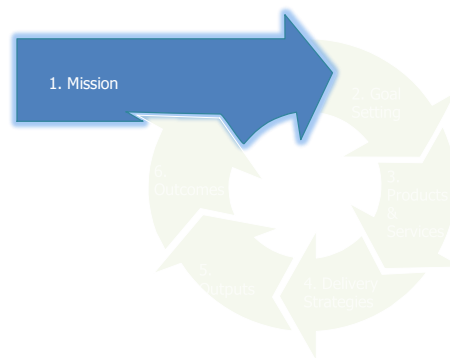
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Step Two: Set Impact Goals

What are the impact goals and objectives that define intermediate and long term changes your CDFI would like to generate?

- Example: Increased community stabilization, increased housing values, and decreased unemployment rate

2. Goal Setting

Ask: Do the elements tie together and re-enforce each other? Are they disconnected? Do they work across multiple purposes?
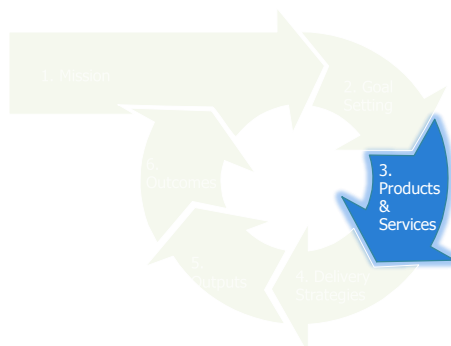
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Step Three: Review Products & Services for Alignment

Given your mission and impact goals, does your CDFI's current mix of products and services support achievement of those goals?

- How does each current product and service feed into accomplishing the goals?
- Are there adjustments in products or services that would better enable your success?
- Consider profitability/financial viability of new products and services

3. Products & Services

Example Goal: Promote First Time Home Ownership

- Do you offer the right mix of loan products that are well suited for first time buyers (e.g., modest down payments)?
- Do you offer home ownership counseling or classes to help customer understand how to build or improve their credit scores, how to maintain a house, etc.?

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Step Four: Review Delivery Strategies for Alignment

Given your mission, impact goals, and mix of supporting products and services, does your set of delivery strategies support achievement of those goals?

- If your goal is to reach new customers that are currently un- or under-banked:
  - Do you offer ways for the customers to reach you remotely (e.g. mobile or online banking)?
  - Do you partner with nonprofits, credit counselors, churches, or others that already work directly with the customers you want to reach?
  - Are your written materials available in the primary languages of the target customer group or presented in a clear concise material that is free of jargon?
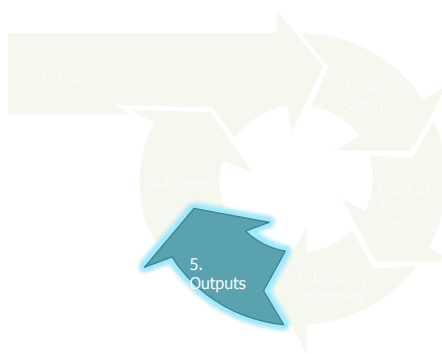
4. Delivery Strategies

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Step Five: Selecting Outputs that Align with Goals

Given your mission, impact goals, and mix of supporting products, services and delivery strategies, what outputs best measure progress towards your stated goals?

5. Outputs

Examples:
- **Employment**: business revenues at loan close
- **Housing**: $ in affordable housing loans, $ of loans in low-income census tracts
- **Commercial Real Estate**: size of building to be rehabilitated, # of tenants occupying building at loan close

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Step Six: Selecting Outcomes that Align with Achievement of Goals

Given your mission, impact goals, and mix of supporting products, services and delivery strategies, what outcomes best measure progress towards your stated goals?

Examples:
- **Employment**: # jobs created/maintained
- **Housing**: # housing units developed/rehabbed/preserved, # of first-time homebuyers with an affordable mortgage
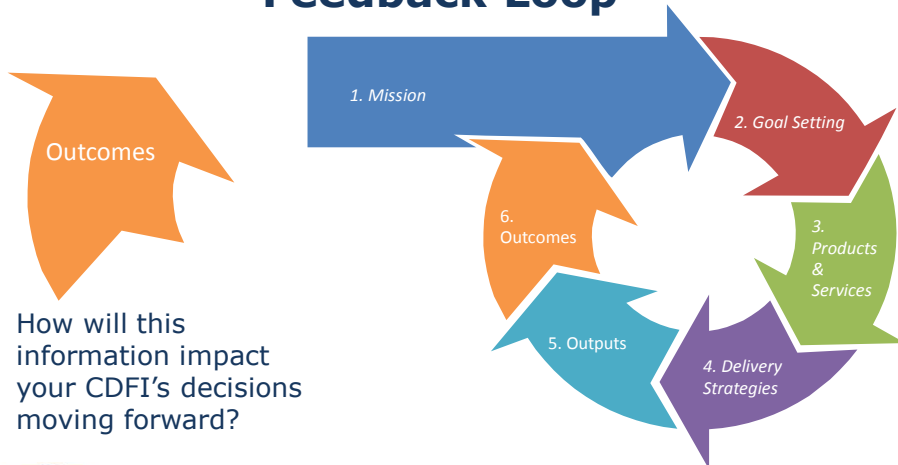- **Commercial Real Estate**: # total sq ft. developed

Tip: Consider what you can track and what conclusions you can draw from there

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Incorporate Data Back Into Feedback Loop

Outcomes

How will this information impact your CDFI's decisions moving forward?

1. Mission
2. Goal Setting
3. Products & Services
4. Delivery Strategies
5. Outputs
6. Outcomes

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Impact Data and CDFI Culture

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Culture of CDFIs

- CDFIs are, by definition, **mission-driven** financial institutions.

- Impact data collection aligns perfectly with mission-driven strategies to affect community development.

- Biggest success factor in creating an effective impact assessment system is developing an organizational culture that values impact data **as a key tool for achieving mission and organizational goals**.
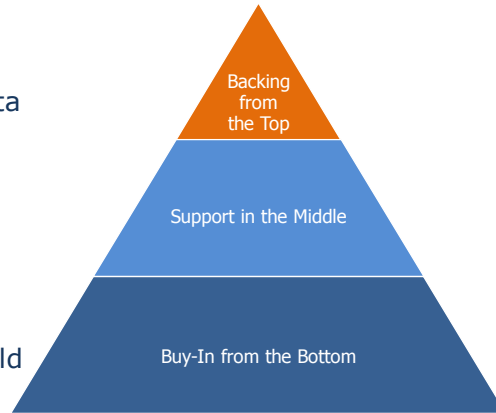
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Creating an Internal Culture that Values Impact Data Collection

- Leadership should explicitly recognize the need to create a culture that prioritizes impact data collection.

- CEOs must make impact data collection a priority for managers.

- All levels of the organization (board, management, staff) should be engaged in planning.

Backing from the Top

Support in the Middle

Buy-In from the Bottom

Three Levels of Support

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Keys to Organizational Buy-In

- Identify top-level leader to spearhead efforts.

- Appoint management staff responsible for collection, quality control, and reporting.

- Identify key front-line staff directly responsible for data collection (e.g., loan officers, compliance staff) and work with them to make data collection easy and inexpensive.

- Codify impact collection practices and policies in writing; educate existing staff and include in new staff orientation.

- Communicate impact performance several times a year to the entire organization.

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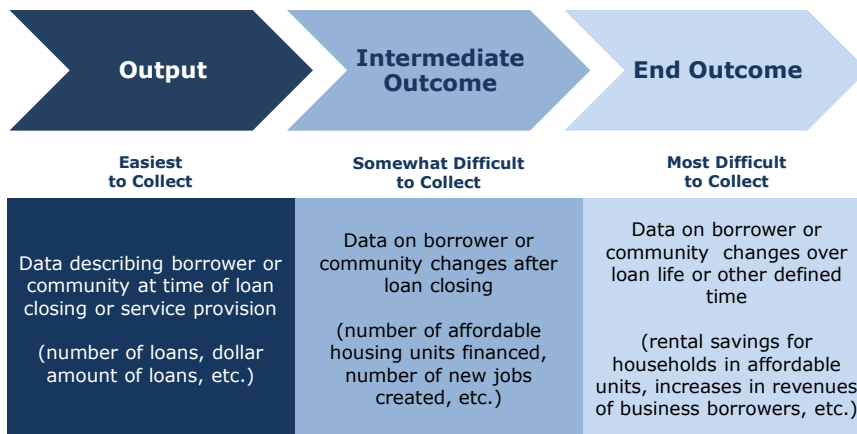Provided by OPPORTUNITYFINANCE NETWORK

Impact Measurement Defined

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A Spectrum of Impact Measurement Options

Output	Intermediate Outcome	End Outcome
Easiest to Collect	**Somewhat Difficult to Collect**	**Most Difficult to Collect**
Data describing borrower or community at time of loan closing or service provision (number of loans, dollar amount of loans, etc.)	Data on borrower or community changes after loan closing (number of affordable housing units financed, number of new jobs created, etc.)	Data on borrower or community changes over loan life or other defined time (rental savings for households in affordable units, increases in revenues of business borrowers, etc.)

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Defining Outputs

- Output data refers to any data about an institution's activities and services that is collected **at the time of product or service delivery** (e.g., at loan closing or beginning of technical assistance).

- Examples include:
  - Dollar amount ($) and number of loans (#) closed or disbursed.
  - Type or purpose of loans (e.g., construction and land development, multifamily, commercial and industrial).
  - Customer characteristics at time of loan close: income level, geographic location, NAICS industry code, tax status, number of existing employees in the business, etc.
  - Number and type of depository accounts (checking, savings, time deposits) opened or closed.

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Defining Outcomes

- Outcome data describe the positive changes over time for the organization's customers or the communities it serves, **after the CDFI's delivery of services, as a result of the product or service delivery**.

- There are two categories of outcome data:
  - **Intermediate outcomes**:
    - e.g., Rehab loan to a multi-family housing development **results in** X number of units rehabbed and X number of units deemed affordable.
  - **End outcomes**:
    - e.g., Rehab loans for single-family homes in a distressed neighborhood that, over time, help stabilize the community as measured by increased housing values and/or new business start-ups.

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Key Outcome Statistics Collected in the Industry

Housing	Business	Community Services	Commercial Real Estate	Consumer
Housing units created, renovated, or preserved	Jobs created & retained	Healthcare slots	Square feet of commercial real estate developed or rehabbed	Payday loan alternatives
% units affordable to low-income people	Financing of minority and women-owned or controlled businesses	Education slots	$ amount annual property tax assessment value	Credit builder loans
Residential mortgage loans closed to first-time homebuyers	Financing of low-income owned or controlled businesses	Childcare slots	$ amount annual property taxes paid	Financial literacy and credit counseling

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Primary Data & Secondary Data: Putting it Together

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What is Primary Data and how is it Useful?

- Primary data is information collected or observed directly from first hand experience (in person or via loan documents)
- **Examples:**

Square Footage of a Facility Financed

Business Revenue

Number of Housing Units

Number of Employees

Household Income

Tip: The staff delivering services directly to customers provides your CDFI the best opportunity to collect primary data (e.g. loan officers).

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Primary Data: Regulatory Considerations for Depository CDFIs

- Regulatory prohibitions create **significant barriers and confusion to collecting primary borrower data** on race, gender, ethnicity, etc. As a result, regulated institutions do not have complete demographic data on their customer base (except for home mortgage lending)
- Two CDBA member banks (CDFI banks) have piloted customer data collection techniques using technology and other strategies that separate customer data collection from the credit decision process
- So far (while new) these efforts seem to be acceptable to regulatory agencies

Regulatory Considerations for Impact Data Collection	
Equal Credit Opportunity Act (ECOA)	Prohibits collecting data on race, national origin, gender, religion, and other factors for all credit transactions except a primary residence
Fair Housing Act	Prohibits lenders from discriminating on the basis of race, color, religion, gender, handicap, familial status, or national origin
HMDA	Requires collection of data on race, ethnicity, gender, income, and location for mortgage lending on a primary residence

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What is Secondary Data and How is it Useful?

- Secondary data is data collected and reported by a third party such as by government agencies, proprietary, or academic sources

- **Targeting:** Census tract location data can be used to create **simple output measures at the community level** that indicate the extent to which a CDFI is *targeting resources to specific low-income or other target census tract* (e.g., as required for CDFI (re)certification)

- **Long Term Outcome:** Secondary data can be used to develop a set of inexpensive, easy-to-access **outcome indicators** that track *changes in economic and community well-being over time*

  - Examples: changes in percentage of area median family income, percentage of families below poverty line, annual unemployment rate

Examples of Free Secondary Sources

- Bureau of Labor Statistics Quarterly Census of Employment and Wages
- Census' Small Area Income and Poverty Estimates
- Consumer Financial Protection Bureau, Rural, and Underserved Counties
- HUD Neighborhood Stabilization Program Targeting
- PolicyMap
- USDA Food Access Research Atlas

Tip: Various geospatial mapping programs enable you to access free and subscription based secondary data sources such as PolicyMap.

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Understanding Impact through Data
Case Study: City First Bank of DC

Map using primary & secondary data to demonstrate targeting to LMI communities.

- Uses only a few outputs and outcomes: loan location, low and moderate income (LMI) status of the census tract

- Mapping can demonstrate strong commitment to lending in LMI communities

- Presented to investors, public officials, Capitol Hill, etc.
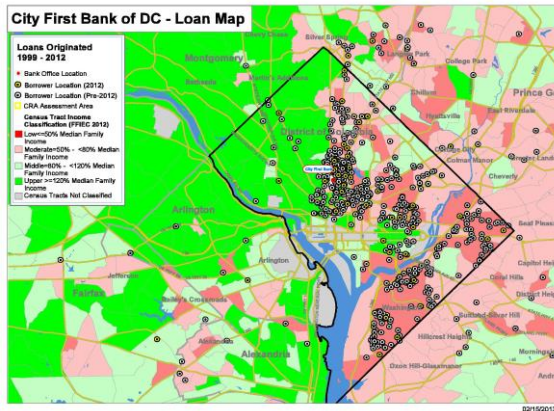
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Data Collection Systems, Implementation, and Quality Control

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Investing in Data Collection Systems

- Investing in appropriate data collection systems is important. CDFIs need to recognize up-front that data collection costs are real.

- Strategies to mitigate costs include planning, studying internal data, mining cheap data sources, sharing best practices with peers, and using technology effectively.

Data Collection Systems

- Client Relationship Management Systems: Salesforce, SAP CRM, Oracle CRM

- Mapping Software: PolicyMap, ArcGIS, QGIS, OFN's CDFI Coverage Map

- Custom Database Software: Oracle, Microsoft SQL Server, MySQL, Microsoft Access

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Maintaining Quality Control

| Challenge	Strategies
Maintaining quality control	• Employ consistent data collection methods • Provide staff training • Have written policies and procedures • Create financial incentives for staff to consistently collect data • Use electronic loan application systems (e.g., collecting all data at application from borrowers, designating mandatory data fields for internal staff use)
High cost and burdensome collection	• Use data on your target community already collected from secondary sources • Check that your IT system can create customized data fields and reports • Ability to download data for analysis • Ask borrowers for reports they already generate for other purposes that can be used for impact reporting (e.g., audit, employer's federal quarterly tax returns, Form 990 for nonprofits, payroll reports)

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Case Study: Neighborhood Trust Financial Partners

Neighborhood Trust uses a salesforce based system to track one-on-one financial counseling outputs and outcomes

• Financial Counseling Outputs:
  – Number of clients
  – Number of counseling sessions
  – Number of action steps taken

• Financial Health Outcome Metrics:
  – Becoming banked
  – Improve self-efficacy and financial management
  – Increase savings
  – Decrease unproductive debt
  – Establish and improve credit
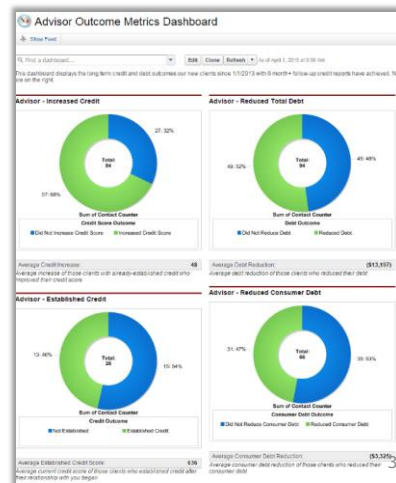
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Findings from
Create Jobs USA

Jobs Data Collection

- OFN Experience through Create Jobs for USA initiative

  – Dataset of more than 30,000 loans to community businesses

  – CDFIs report job projections and actual jobs created

  – Projected $21,000 financing per 1 job created and retained

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Lessons Learned on Collection and Processes

Policies / Procedures
- Organizational Commitment

- Importance of Clear Workflow

- Internal Quality Control

Data Collection
- Written Statement for Borrowers

- Definitions / Glossary of Terms

- Forms and Documents, Reporting Guidelines

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Lessons Learned on Collection and Processes

Recording the Data
- Software System

Getting to Total Jobs
- Jobs Created

- Jobs Retained

- Indirect Jobs

- Induced Jobs

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Jobs Definitions

- **Jobs Created**: The new jobs the business owner reports to have been created since the loan closed net of any job losses during the same period.

- **Jobs Retained**: Jobs Retained are the jobs that would have been lost if the loan had not closed.

- **Indirect Jobs**: The jobs created or retained by businesses in support industries (e.g., for construction projects, construction materials suppliers, architects, engineers, and other businesses that support the construction project will experience an increase in demand and will create and retain jobs as a result).

- **Induced Jobs**: The jobs created or retained by businesses that the workers spend their disposable income on (e.g., the new employees of the construction business will spend their wages at restaurants, grocery stores, etc.).

Challenges with inconsistent jobs definitions.

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Lessons Learned on Collection and Processes

Projections Models

- When to Use a Projection Model

- Widely-Used Models

  - Model by NAHB (National Association of Home Builders)

  - IMPLAN

  - Aspen's Field MicroTest Client Outcomes Survey

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Quality of Jobs

What information do CDFIs track?

- Wages

- Number of Hours Worked

- Benefits

- Health/dental/life insurance

- Paid holiday/vacation/sick leave

- Other (retirement contribution, paid child care, etc.)

Increasing importance in the industry

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Case Study: Kentucky Highlands Investment Corporation (KHIC)

Jobs Data Collection Policy

- Investment analyst collects jobs data during application process
  - Number of jobs prior to investment and projected jobs to be created and/or retained

- Formal jobs survey by all borrowers at the time of loan closing

- Lending department requests jobs data and financial and wage information on an annual basis
  - Survey sent to all borrowers by lending department

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Wrap-Up

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Recommendations

- Be intentional and plan up front
- Create feedback loop to inform future strategies
- Create an internal culture that makes impact measurement a priority
- Identify and share best practices among CDFI peers
- Define data you are collecting
- Manage restrictions on collection of borrower data
- Mine inexpensive data sources and maximize the use of secondary data
- Evaluate impact software and sources to fund
- Recognize costs upfront but understand system development is evolutionary over time
- Get started! Start with what you have and work from there

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Questions?

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