Assessing the Systemic Impacts of Community Development Loan Funds

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Abstract

The community development finance industry traditionally has measured the social and economic benefits of community development loan funds (CDLFs) in terms of certain quantifiable outcomes associated with the CDLFs' financing: jobs created in the financed businesses, housing units created or rehabilitated, child care slots in financed day care facilities, and so forth. Yet numerous CDLFs do not define success solely in terms of these measures, and both industry practitioners and theorists have argued that these organizations have significant impacts beyond those created by individual transactions. We conducted case studies of 25 CDLFs and interviewed 15 additional industry observers to determine whether and by what means CDLFs have had such impacts.

We found that CDLFs have contributed to three specific types of systemic impacts. They have 1) helped bring conventional financial institutions into traditionally under-served communities, often by demonstrating the viability of certain types of products and borrowers; 2) helped influence the decision-making of philanthropic foundations; and 3) influenced legislative, regulatory, and re-source allocation policy towards low-income communities. Multiple factors appear to increase the likelihood of a CDLF pursuing and achieving systemic impact, chief among them being the presence of sufficient organizational resources to allow experimentation, and the efforts of inspirational leaders in creating an entrepreneurial organizational culture. The paper concludes with suggestions for measuring and assessing the extent to which CDLFs have contributed to systemic impact.

Introduction

The community development finance industry traditionally has measured the social and economic benefits of community development loan funds (CDLFs) in terms of certain quantifiable outcomes associated with the CDLFs' financing: jobs created in the financed businesses, housing units created or rehabilitated, child care slots in financed day care facilities, and so forth. Yet numerous CDLFs do not define success solely in terms of these measures, and both industry practitioners and theorists have argued that these organizations can and do have significant impacts beyond those created by individual transactions. These broader impacts involve changing the behavior of conventional lenders, public agencies, and/or philanthropies with regard to investing in historically under-served markets, and changing the public policies that affect those communities. For example, CDLFs may demonstrate the economic viability of certain financial products and services. They may broker relationships and package capital in order to make certain transactions viable. Their knowledge and research regarding particular markets may enable them to educate and influence policy-makers. In each case, the ultimate impacts are likely to be more systemic and qualitative in nature—and not easily captured or addressed by commonly used indicators.

Although practitioners and researchers have discussed many of the CDLFs' broader goals of systemic change in the financial marketplace, and their approaches to bringing it about, these efforts have not yet been rigorously analyzed. This study begins that analysis by defining the broader concept of systemic impact, documenting ways in which CDLFs can realistically have such impacts, and offering suggestions for measuring and assessing the extent to which the organizations have attained those goals. Given time and resource constraints, we have necessarily focused our study more broadly and conceptually; subsequent analyses can address more specifically the role that CDLFs have played in bringing about certain changes.

Background and Context

To date, much of the work done on assessing the impact of CDLFs has focused on particular organizations and their lending activities. There have been a handful of methodologically rigorous studies, for example, that looked at the role of CDLF financing in strengthening small businesses (Miller 1993; LaPlante 1996; Caskey and Hollister 1999).[1] Each of these analyses, however, focused on the outcomes and outputs of various transactions and not on the broader roles of Community Development Financial Institutions (CDFIs) as influencers of institutional behavior and public policy.

[1] For a review and analysis of these studies, see Rob Hollister (2007), Measuring the impact of community development financial institutions, Chapter 9 in *Financing Low-Income Communities*, Julia Sass Rubin (Ed). New York, NY: Russell Sage Foundation, pp. 265-310.

Production-oriented measures essentially have become industry-standard "impacts," with funders and policy-makers citing the total number of housing units created or the total number of jobs created as indicative of the effectiveness of the development finance industry. Yet such simple quantitative measures—and the assumed causal relationship between them and loan or equity capital provided by CDLFs—suffer from often-faulty assumptions. Consider the job issue. Realistically, the CDLF's loan proceeds at most helped the company take advantage of an opportunity or a market environment in which it could expand or restructure. Without the foresight of management or the particular dynamics that made business development possible, the new jobs presumably would not have come about. The jobs retained measure is even more problematic. Such a measure implies that, absent the loan proceeds, the company would have ceased to exist and all the existing employees would have been out of work. It is hard to imagine that being the case if the loan was used to help a successful company open an additional location.

Perhaps more fundamentally, the commonly used "impact" measures often have only tangential relationships to the organizations' stated missions, such as strengthening communities and improving conditions for low-income individuals and families (Zielenbach 2004). As such mission statements indicate, for a number of CDLFs, lending is principally a means to a broader end, not an end unto itself. "I think about [loans] as tactics, not as a discrete function," explains ShoreBank Enterprise President and CEO John Berdes. "We're always talking about transaction versus transformation and that one loan doesn't do anything."

Some CDLFs have gone beyond recognizing the limitations of conventional impact measures, to trying to change them. In a jointly authored paper, leaders of Boston Community Capital, Enterprise Corporation of the Delta, and the Low Income Investment Fund argue that organizations such as theirs play numerous roles in low-income communities, which go beyond financial transactions to include "accurately reflecting and representing community interests and values; creating a collective strength or market demand to attract better and cheaper goods and services, and making it easier for external resources to identify and meet the needs and opportunities in local markets." They conclude by stating that "Social impact measures need to reflect that reality" (Boston Community Capital 2006).

The idea of CDFIs as catalysts and contributors to more-sweeping change also has gained some traction within the research community. Caskey and Hollister (2001) argued that CDFIs can be pioneers in underserved markets, essentially developing them for more mainstream financial institutions to serve. Benjamin, Rubin, and Zielenbach (2004) highlighted the key role CDFIs played in brokering financing for many of the early multi-family affordable housing developments, and the continuing role they play in attracting conventional lenders to such deals. Berry et al. (2007) discussed how some CDFIs have developed new relationships with banks, and new development strategies as banks have moved into markets that were once solely the province of CDFIs.

Ratliff and Moy (2005) proposed expanding the measurement of CDFI impact beyond outputs and outcomes to the organization and industry level, in order to capture what they termed "market development or demonstration effect(s)."

Many funders spend time counting the number of loans made or housing units constructed. By only considering the scale effect and its associated demands at the product level, the field severely limits its ultimate impact. Expanding our focus to include the organization and industry level dynamics can contribute useful insights for our long-term success…. Aside from delivering a product or service at steadily increasing volume, one might think in terms of achieving a significant market share in a target area that is big enough to influence a market and change the behavior of other actors. This market development or demonstration effect requires further study in order to understand its value and contribution to achieving better development outcomes. (pp. 19-20).

Dickstein (2006a, p. 20; 2006b) fleshed out this demonstration effect, using the example of Coastal Enterprises Inc. (CEI) and its efforts to attract Maine's conventional financial institutions to some of the state's low-income rural markets. She categorized such efforts as part of CEI's "institutional impact," and included within this category CEI's extensive policy work, which focused on increasing resources for the CDFI field and changing the regulatory landscape for conventional financial institutions in ways that would benefit the state's low-income communities. Dickstein proposed additional research designed to measure such institutional impacts, structured around interviews "with key stakeholders."

Given the small size of the CDLF industry, its direct impact via financial activity and TA provision is inherently limited. If it is able to foster systemic changes that bring new resources into low-income communities, its impact can be greatly magnified.

In trying to understand the potential systemic impact of CDLFs, this study focused on three specific types of change. First, have CDLFs changed the way conventional financial institutions approach and lend within low-income communities, such as by helping to demonstrate the viability of certain types of borrowers and loan products? Second, have CDLFs influenced the decision-making of philanthropic foundations? Third, have CDLFs influenced legislative, regulatory, and resource allocation policy towards low-income communities?

Methodology

As of July 1, 2007, 768 organizations had been certified as CDFIs by the U.S. Treasury Department. This number includes community development banks and credit unions, community development venture capital funds, and community development loan funds (CDLFs). CDLFs comprise the majority of certified CDFIs, and focus their lending activities on issues ranging from affordable housing and small business development to community facility and infrastructure development. The organizations vary widely in terms of scale and approach. Most are nonprofit entities, although a few are incorporated as for-profits. As non-depository institutions, they all are relatively free of federal or state regulation. As a result, CDLFs frequently have more flexibility in exploring new financing products and services□and generally in taking more risks□ than would a regulated community development bank or credit union. As our interest lies primarily in assessing these more cutting-edge approaches, particularly with regard to their ability to catalyze more-systemic change, our study focuses solely on CDLFs.[2]

The most recent survey of CDLFs conducted by the CDFI Data Project involved 151 organizations that reported on their activities through the end of fiscal year 2005. Of the 151, 53 funds focused primarily on the origination of micro-loans□small business notes of $35,000 or less. CDFIs that primarily or exclusively make micro-enterprise loans have a different economic model than most CDLFs (Servon 2007), and tend to be focused principally on benefiting limited numbers of individuals and small businesses, not on effecting broader policy and behavioral changes in financial markets. We therefore limited our universe to the remaining 98 CDLFs in the 2005 CDFI Data Project (CDP) sample.

From this pool, we selected 25 CDLFs for analysis (see Appendix A). Because we were trying to identify those CDLFs that are most likely to have innovated and affected the behavior of other organizations, we have weighed our sample more heavily toward the older CDLFs and those that (based on CDP data) have the largest volumes of financing activities.[3] We also factored in the types of organizations they financed, the geographic areas they served, and their reputation for innovation and effectiveness.

For each of the 25 selected funds, we obtained information on organizational mission, goals, target market(s), desired impacts/definitions of "success," products and services, advocacy and other efforts, and interaction with "conventional" lenders and investors. Part of this information came from documents provided by the organization, and part from extensive, multiple-hour interviews with the CDLFs' executive directors (or equivalents) and other pertinent staff members. (See Appendix C for the CDLF interview protocol.)

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[2] Limitations of time and resources also make it unrealistic to focus effectively on multiple institutional types, and the members of the study team have extensive experience and working relationships with CDLFs.

[3] The CDLF industry is highly concentrated, with just 20 CDLFs responsible for 79 percent of all direct financing outstanding (Rubin 2008).

The CDLFs provide only one perspective on impact. To triangulate this perspective, we interviewed 15 third-party lenders, investors, public officials, and foundation officers (see Appendix B) who have been involved in many of the same markets as the CDLFs and have sufficient knowledge of the evolution of financial services in those markets over the past 10 to 20 years. These individuals were identified through the CDLF interviews, through referrals from industry leaders within the CDFI industry, and from the study team members' professional networks. (See Appendix D for the third-party interview protocol.)

In-depth interviews are the best methodology for addressing our issues of interest. As noted earlier, virtually no quantitative data exists regarding the broader systemic change measures we are looking to examine. (To the extent that conventional financial institutions have information on the changing volume and characteristics of their products and services in certain markets over time, that data is likely to be proprietary.) Mail surveys are inappropriate because of the nuanced information we seek to collect. The sampled CDLFs have different approaches to (and definitions of) impact. Their strategies for achieving their goals also vary widely by their geographic location, conditions in their markets, size, and institutional relationships. It would be extremely difficult to design a survey that could adequately capture those nuances, and it is unlikely that CDLFs would respond to such a survey with the detail that we would need. The interview approach allows for greater flexibility of questioning, with interviewers able to probe on topics that arise in the course of conversation.

The examples used in this paper are meant to be illustrative versus comprehensive. We found many more examples than we could include in this paper of CDLFs'systemic impacts on conventional financial institutions, foundations, and public policy.

Influence on Conventional Financial Institutions

The long-term financial health of lower-income, relatively under-served markets ultimately depends on the availability of affordable credit and investment capital. Conventional banks and thrifts have generally been relatively conservative entities, limited in their risk-taking by concerns about financial safety and soundness. They have traditionally approached community development finance somewhat warily. CDLFs help address the financial needs of under-served markets themselves, but their size limitations preclude them from fully satisfying these markets' demands. Engaging conventional institutions in these markets therefore serves as an important measure of success for many CDLFs. Chuck Prince, the director of the Idaho-Nevada CDFI, expressed the sentiment of many of the interviewees: "changing lender actions and behaviors" with respect to businesses in low-income communities and affordable housing developments for low-income people "is an overt and conscious part" of what his and other CDLFs do.

The primary way that CDLFs have worked to engage mainstream lenders has been by demonstrating that the risk of lending in under-served markets is lower than the mainstream lenders originally perceived it to be. A chief strategy has involved taking a debt position subordinate to that of the conventional lender; should the borrower default, the conventional lender has first recourse. Consider

the case of affordable housing finance. In the 1980s and early 1990s, banks were quite hesitant to lend money to such projects because of the perceived risk of default. The Local Initiatives Support Corporation (LISC), along with entities such as the Institute for Community Economics, the Boston Community Loan Fund, and the Delaware Valley Reinvestment Fund, devoted significant capital to finance the early (and most risky) stages of development. They financed the acquisition of the underlying land, the "soft" (non-construction) costs associated with preparing the site for development, and the actual construction costs. Entities such as the National Equity Fund and the Enterprise Social Investment Corporation (affiliates of LISC and the Enterprise Foundation, respectively) injected equity associated with the federal Low Income Housing Tax Credit into many of the deals. Once the projects were sufficiently underway and had an ample equity base, conventional lenders were more willing to provide traditional mortgage capital. As banks have become more familiar with these projects, they have increasingly competed to finance them. Conventional lenders recognize the increasing stability of the affordable housing market—demand for the units continues, making cash flow more likely, and the physical property provides collateral—and are increasingly willing to provide construction and even some early-stage financing. CDLFs such as the Connecticut Housing Investment Fund have found that banks are now more and more likely to compete for smaller affordable housing deals, projects they previously ignored as being too risky or having too many up-front transaction costs. Yet the banks still rely on CDLFs and other subordinate lenders to finance most of the acquisition and pre-development components of the deals.[4]

In many cases, providing gap financing has been enough to bring conventional lenders into projects and, by extension, under-served markets. In other cases, CDLFs have worked to document the viability of particular markets and have frequently developed innovative financing strategies and products with which to do so. Such is the case of manufactured housing cooperatives (mobile home parks) in New Hampshire.

Through the early 2000s, conventional lenders largely refused to lend to individuals to purchase manufactured homes, even though many of the prospective borrowers had credit scores over 700. The lenders contended that the temporary, recreational, and mobile nature of the homes made them unacceptable collateral. The buyers were forced to go to subprime lenders, who charged about a 12 percent median annual interest rate. The New Hampshire Community Loan Fund (NHCLF) saw an opportunity for both social and economic benefits, and created a mixture of acquisition, refinance, home equity, and replacement home financing for buyers of homes in cooperative communities. NHCLF's lending proved successful, and mainstream lenders gradually took notice. In 2003, the New Hampshire Housing Finance Agency declared cooperative communities eligible for first-time homebuyer loans. In 2004, the Laconia Savings Bank began providing conventional home equity loans to cooperative members with high credit scores, and purchased $500,000 of such loans from the NHCLF. In 2006, Fannie Mae

[4] According to Nancy Andrews, the Executive Director of the Low Income Investment Fund, the market for affordable housing finance changed significantly about five years ago. Conventional lenders—Citibank in particular—generally became increasingly driven by numeric Community Reinvestment Act targets. They consequently ramped up their involvement in construction lending, mini-permanent lending, and first mortgage lending to affordable housing projects, especially if the projects had Low Income Housing Tax Credit-related equity. The deals were lucrative, and the loan making process was fairly straightforward.

authorized a $10 million pilot program to offer conventional loans to homeowners and homebuyers in New Hampshire's cooperative communities, providing a critical secondary market for such mortgages.

A similarly noteworthy CDLF innovation involved the creation of vehicles to support sales of conventionally generated mortgages on the secondary market. The Self-Help Ventures Fund established and subsequently sold to Fannie Mae a program that guaranteed a portion of mortgages made by conventional lenders to low-income homebuyers. If a lender wants to participate in the program, it must agree to use the sale proceeds to make more such mortgages. The Enterprise Corporation of the Delta purchases such mortgages directly from conventional lenders in the Mississippi Delta region, again with the requirement that the proceeds are used to originate more loans to low-income individuals. By providing a means for conventional lenders to recapitalize and not be forced to keep the loans on their books, these CDLFs have significantly facilitated affordable housing finance by other financial institutions in their markets.

CDLFs have been especially active in lending to nonprofit organizations, simultaneously helping the organizations to understand the value of debt and educating mainstream lenders about ways of effectively underwriting the nonprofits. Conventional financial institutions historically were extremely reluctant to lend to small and mid-sized nonprofit human service providers and arts and cultural organizations because of the nonprofits' inconsistent revenue streams, extensive reliance on grant income, and relative lack of financial sophistication. The Nonprofit Finance Fund (NFF) recognized the importance of loan capital for the organizations' growth and sustainability. In addition to providing the organizations with financing to support the development, rehabilitation, and enhancement of their facilities, NFF worked extensively with them to help them improve their accounting and financial management knowledge and expertise. Over time, conventional lenders—many of whom regularly provided NFF with grant support—came to realize that what NFF was doing was essentially just a different form of real estate finance. Banks now regularly compete to finance nonprofit projects that they would not have considered 10 to 15 years ago.[5]

More recently, CDLFs have played a critical role in demonstrating the viability of charter school financing. The Reinvestment Fund (TRF) and the Low Income Investment Fund (LIIF) have pioneered in this area. LIIF, for example, initially provided loan capital for multiple stages of the schools' development, from the acquisition and pre-development stages through construction and permanent mortgages. As banks came to realize that such projects were financially viable, they became increasingly willing to provide permanent financing. An increasing number of charter schools throughout southern California are now able to raise capital through tax-exempt bond issuances. As a result, LIIF's charter school financing is now primarily confined to acquisition, pre-

[5] Attracting conventional financing may not always be an appropriate criterion of systemic impact. CDFIs' greater flexibility and willingness to take risks may make them better ongoing sources of capital than banks for some kinds or transactions and organizations. Julie Eades, the President of NH Community Capital believes that, although banks will finance some nonprofit organizations, the nonprofits' unstable funding stream may mean that they still are better off with the more flexible CDFI financing.

development, and construction lending, though Executive Director Nancy Andrews believes it is merely a matter of time before more banks feel comfortable with construction financing.

In working to change conventional lenders' perceptions of certain markets, CDLFs have supplemented their lending with concerted educational and outreach efforts to help the lenders understand the true nature of risk associated with the markets. Part of that education comes in the course of the CDLFs' loan approval processes, as conventional lenders on the CDLFs' loan committees learn how the organizations underwrite seemingly "high-risk" borrowers. Part comes through meetings to explain the CDLFs' approach to the markets. LISC and the Boston Community Loan Fund, for instance, met regularly with various members of the Boston banking community in the late 1980s to help them understand how affordable housing projects could be effectively underwritten. The efforts helped establish a multi-bank affordable housing initiative that made Boston one of the most sophisticated community development finance markets in the country. President Cynthia Russell and others at the Connecticut Housing Investment Fund (CHIF) have devoted long hours to helping mainstream lenders understand the appraisal gap problem common with many affordable housing developments in the state's weak-market cities.[6] After understanding the projects' dynamics better, and having seen that CHIF's loans to such projects have always been repaid, some of the lenders are now willing to participate in these deals.

Certain CDLFs have been at the forefront of efforts to educate and influence conventional lenders about environmentally sensitive lending. The West Virginia-based Natural Capital Investment Fund (NCIF), which works to promote environmentally sustainable development in distressed regions of Appalachia, has pushed area lenders to add environmental criteria to their underwriting. One of NCIF's primary goals is to convince banks not to finance companies and projects that are located in flood plains or do not have environmentally sound practices (indicated by Leadership in Energy and Environmental Design or sustainable forestry certifications, for instance). ShoreBank Enterprise Cascadia has taken similar approaches, especially with respect to septic tanks. According to President and CEO John Berdes,

> "Our goal is to get financial institutions who do home mortgage finance to care as much about a buried septic tank in the future as they care about a buried oil tank today. The challenge here is invisible infrastructure that has no public accountability, and therefore no value proposition in the marketplace. … We are just going to say "you think an oil tanker is messier, just see this!"

Both Berdes and NCIF Executive Director Marten Jenkins believe that their efforts have resulted in some changes in bank behavior. Jenkins contends that the community banks who realize that natural-resource-based companies are a key component of their local economies appear more willing to take the time to learn about the particular nuances of environmentally sensitive financing. Berdes feels that CDLFs are partly responsible for "the emergence of multi-billion dollar commitments from Wells [Fargo] and Bank of America, among others, to green lending."

[6] The appraisal gap results from the underlying value of the land being less than the cost of development, making it hard to collateralize the required financing. The problem is typical of many weak-market areas.

Both the number and dollar amount of conventional loans made in lower-income communities have increased considerably in the past 15 years. Consider the case of Lawndale, a community on the west side of Chicago that has historically been one of the city's poorest and most economically distressed. Institutions that have to report their loans under the federal Home Mortgage Disclosure Act (HMDA) made nearly five times as many conventional home purchase loans in the neighborhood in 2006 as they had in 1999. The dollar amount of these loans was nearly 11 times as great. At the same time, the number of loans made to Lawndale businesses with under $1 million in assets (as reported under Community Reinvestment Act [CRA] requirements) nearly doubled.[7] Banks now regularly compete to finance real estate and other projects in neighborhoods such as Lawndale, where such capital used to be scarce.

The increased bank activity in these historically under-served markets has multiple reasons. CRA requirements, which pressure banks to lend throughout their entire market areas, are likely the primary cause. In order to receive an "outstanding" CRA rating□and thus largely preclude potential complications if the bank chooses to merge, purchase another institution, or open additional branches□the bank needs to demonstrate a strong track record of lending and investing in low-income areas. The overall strength of the national economy over the past 15 years, coupled with the relatively low cost of funds that has resulted from generally loose monetary policy, has reduced the risk of default in the areas and made it easier for banks to absorb the losses they might incur. Increasing competition in the financial marketplace has made banks more willing to consider and expand into historically weaker, under-tapped markets[8]. Advances in technology, particularly the movement toward credit scoring, have reduced the amount of time and resources necessary to assess and underwrite loans; lenders now tend to make a larger proportion of loans simply based on computerized analyses of the prospective borrowers' key financial indicators. The process has helped reduce some lender biases that have limited financing of lower-income borrowers and communities.

CDLFs have also contributed to the greater bank involvement in these areas. Brian Segel, a Vice President in HSBC's Community Development Finance division, contends that working with CDLFs and learning how they approach transactions has proven beneficial to the bank. "It's broadening to [HSBC's] credit folks to have to understand different types of [loan and borrower] structures, which gives them a better understanding of risks," he asserts. Conventional lenders often work closely with CDLFs to be able to reach formerly under-served markets. According to Dudley Benoit, who oversees JP Morgan Chase's community development activities, Chase "almost completely defers to CDFIs on charter schools; the CDFIs have more knowledge and capacity about the market." Chase also finances many of its small business and community facility projects in its New Markets Tax Credit program through CDLFs. Segel echoes Benoit. "There's an appreciation that banks can't do much of this work themselves, and the presence of

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[7] The figures came from aggregated data reported to the Federal Financial Institutions Examination Council per HMDA and CRA. Available at: www.ffiec.gov. [Last accessed 7-26-08]. .

[8] The current credit crunch may cause this situation to change. As available lending capital decreases, and lenders tighten credit standards, conventional lenders may once again retreat from weaker markets.

intermediaries makes [that lending] possible." Supporting CDLFs and other CDFIs is often part of a longer-term bank strategy to build a customer base. The hope is that some of the CDLFs' borrowers will eventually develop the strength and capacity to be able to access bank financing, and would ideally take out larger subsequent loans with the mainstream institutions.

Nevertheless, CDLFs ultimately have limited capacity to alter the behaviors of mainstream financial institutions. Most importantly, although CDLFs have pioneered some markets that turn out to be sufficiently profitable to attract banks, the risk/return characteristics of almost all CDLFs' portfolios would not be attractive to profit-maximizing banks. CDLFs accept lower returns or take on more risk than would a conventional bank because they consider the social returns from their projects in addition to the financial returns. In addition, for regional, national, and international banks, larger market pressures tend to have a much greater impact on lending approaches than do local pressures. The consolidation of underwriting functions in a central bank office has led to less "touch lending" on the local level and thus limited the amount of flexibility loan officers have in crafting solutions to less standardized financing needs. Furthermore, the incentives for bank loan officers still tend to be geared principally toward the raw numbers of loans that they can generate; such a structure does not reward efforts to be more creative in meeting borrower needs.

Finally, as several CDLF leaders pointed out, CDLF culture differs from that of banks. Bankers are trained to provide low-risk financing. CDLFs, on the other hand, are trying to accomplish their social goals while remaining sustainable. This creates a deal-driven culture within CDLFs that is somewhat similar to that of investment banks, although less profit-oriented. Specifically, when a CDLF sees a project that promises to bring social benefits, it asks, "How can we make this deal work?" This drives CDLFs to absorb costs and take risks that a bank would not.

Influence on Foundations

Achieving systemic improvements in development finance necessarily involves changing ways that conventional lenders and investors approach weaker markets. In many cases, the process requires a jumpstarting of economic activity in these communities; without a functional demand for financing, there is no need for conventional loans or investments. Foundations and other philanthropies often prove critical in seeding such markets. Their charitable purpose enables them to take greater risks with their capital. Foundations have been critical to the growth and development of numerous CDLFs and other development finance institutions. In the past 40 years, foundations have provided CDLFs with a mix of loan and operating capital and have underwritten the costs of significant programmatic innovations.

Not surprisingly, the relationship with CDLFs has contributed to some programmatic and strategic changes within the foundation community. Given the idiosyncratic nature of foundations, however, it is difficult to generalize across the sector. Foundations that support CDLFs do so for different reasons and in a number of different ways. Factor in the variety of CDLF missions, markets, and approaches, and it is hard to pinpoint changes that affect the CDLF community as a whole. "CDFIs have their own endowments and drive their own cars. There is

enough uniqueness [within the industry] to make widespread [philanthropic] policy change hard to identify and define," notes LIIF President Nancy Andrews. Many foundations are also notorious for seemingly operating independently of grantee feedback or other outside pressure. Mike Loftin, the Executive Director of the Santa Fe-based Homewise, contends that "in general, foundations don't see a need to change their approaches; they see themselves as the smartest people in the room." Our discussion therefore highlights examples of certain influences CDLFs have had on specific foundations, indicating ways in which the lenders can help bring about change in philanthropic approaches. We leave a more in-depth examination of the CDLF-foundation dynamics for future research.

Perhaps the most significant CDLF-related influence on foundation behavior has been with regard to program-related investments, or PRIs. Such investments, actually low-interest loans that the foundations expect to be repaid, serve as long-term, low-cost capital for organizations. Their use has expanded considerably over the past decade, as philanthropies have sought to support CDLFs without cutting as deeply into their grantmaking budgets. Georgia Tech Professor Dan Immergluck, who has studied the community development finance industry for years, contends that "the neo-liberal aspects of the CDFI industry□which tends to be much more ideologically homogenous, but also more pro-market, with an enlightened market philosophy□ have led to a more business-like, outcome-oriented, conservative approach on foundations' part. It's a post War-on-Poverty approach." Whereas foundations have frequently concentrated their efforts in less market-oriented fashions, the PRIs reflect a growing interest and engagement in both market-building activities and a more business-oriented approach to community development.

CDLFs have helped educate donors about the dynamics of certain markets and have helped shape the philanthropies' efforts to improve conditions in these areas. Foundation officials have solicited the input of CDLF directors in developing specific strategies. For example, the San Francisco Bay area-based Sobrato Foundation invites Eric Weaver "all the time" to speak about the activities of Lenders for Community Development (LCD), and LCD has consequently played a "very big role" in shaping the foundation's approach to affordable housing. The MacArthur Foundation's focus on affordable housing preservation stems at least in part from the work done in this area by CDLFs that the Foundation has funded. CDLFs have been particularly active in the area of sustainable development. NCIF and the eastern Kentucky-based Mountain Association for Community Economic Development (MACED), among others, have been encouraging funders to focus more on rural development and sustainable natural resource work. The Benedum Foundation has begun providing both capital and operating support for CDFIs and others active in that nexus. Partly in response to ShoreBank Enterprise Cascadia, Coastal Enterprises, and other CDLFs that pursue a triple bottom line approach to their work, the Ford Foundation has been re-thinking its way of characterizing and working with organizations that do not fit neatly into the traditional "silos" of community economic development or environmental preservation. Among other responses, Ford has hired a new program officer focused on sustainable development.

The other major CDLF initiative regarding foundations has involved pushing them to focus more on supporting organizational development and general operations, not just new products or projects. The leader in this endeavor has been the Nonprofit Finance Fund. One of NFF's major initiatives involves developing a set of grantmaking principles and encouraging funders to implement them. Chief among those principles is funding at the enterprise, not the project level□in other words, supporting the overall institutional sustainability of the nonprofit instead of funding simple service delivery. NFF pushes donors to acknowledge and fund the nonprofits' indirect operational and administrative costs. NFF has also been encouraging funders to think in terms of net grants: the amount that the nonprofit ultimately has for programmatic or other activities after taking into account the money it has spent on developing the grant request and complying with the funder's reporting and other requirements. Too often, funders put small amounts of money into an organization and then demand rights more common to those of major investors. NFF Executive Director Clara Miller is seen as one of the most influential people in the area of nonprofit finance, having written and spoken extensively on the topic, and meets regularly with funders around these and other issues. NFF's efforts, along with those of others CDLFs, such as the Natural Capital Investment Fund, seem to have begun to change the nature of the dialogue among some foundations. Although the proposed practices have not yet been widely implemented, there has been some movement in that direction. For example, the West Virginia-based Benedum Foundation has provided CDFIs with both operating and capital grants, and the Greater Kanawha Valley (WV) Foundation has specifically funded loan loss reserves.

Influence on Legislative, Regulatory, and Resource Allocation Policy

The power and influence of the philanthropic community pales in comparison to that of government.[9] Self-Help President Martin Eakes emphasizes that "incremental change in the large elephants [public policies] would make more vibrations on the ground than total change in direction by us little mice." It is for this reason that Self-Help and other CDLFs treat policy advocacy as a central part of their mission and daily activities.

Maurice Jones, who headed the federal CDFI Fund during the final year of the Clinton Administration, contends that CDFIs' success in financing community development activities has given them general credibility among many public officials. Government agencies consequently "feel good about using them for public purposes." Not only does the CDFIs' involvement help disburse resources efficiently, but it satisfies an underlying ideological goal of making the government be "more private sector and outside-the-box oriented."

Many CDLFs became involved in policy advocacy after finding that financing activities alone were unable to address a particular problem in their target communities. This is particularly true for those CDLFs that have pursued a sectoral strategy in their financing activities, focused

[9] Most nonprofit CDLFs are 501 (c)(3) organizations and as such, have the ability to engage in extensive public policy activities without jeopardizing their tax exempt status, as long as they elect to come under the 1976 lobby law

around a particular industry, such as fisheries, manufactured housing, charter schools, child care, or health care. Such a strategy requires the development of extensive expertise within the given sector, which makes it easier to identify structural impediments to change, and often leads those CDLFs to policy advocacy in order to address such impediments. This was the case for many of the CDLFs in our sample.

CDLF advocacy takes many forms and often has multiple targets. Some CDLFs focus their efforts primarily on enacting or changing local ordinances and public funding approaches. Both Homewise and the Stamford, CT-based Housing Development Fund have been instrumental in promoting and passing municipal inclusionary zoning ordinances. Thanks in large part to Homewise's efforts, Santa Fe now requires that 30 percent of the housing units in new developments be set aside as affordable for lower-income households. Both the city and the surrounding county implemented a recommendation of the regional planning commission (chaired by Homewise Executive Director Mike Loftin) to create separate affordable housing trust funds. Housing Development Fund's educational efforts helped Stamford and nearby Norwalk to adopt affordable housing ordinances, and its work has caused officials in other Fairfield County cities and towns—Danbury and Darien, in particular—to consider similar approaches.

CDLF advocacy efforts have contributed to local changes in public resource allocation and service delivery practices. Boston Community Capital (BCC) helped convince the city of Boston to outsource some of its smaller housing programs to local community development corporations (CDCs) instead of negotiating contracts with individual developers and union officials. CDCs now take responsibility for much of the city's renovation of abandoned public housing and one-to-four family homes, and of the infill affordable housing development. Much of the public money for these programs flows through BCC, which serves as the financing agent for the CDCs.

The Reinvestment Fund, through its Office of Policy and Information Services, worked closely with the city of Philadelphia in the development of the city's Neighborhood Transformation Initiative, and it has advised other Delaware Valley municipalities in their targeting of economic development resources. The organization has developed so much local credibility that when the Pennsylvania legislature set aside funding to promote the development of supermarkets in low-income neighborhoods, it turned to TRF to manage this initiative.

Certain CDLFs have played instrumental roles in shaping state and regional policies. Perhaps the most significant and noteworthy example was Self-Help's taking the primary role in advocating for (and ultimately helping pass) North Carolina's anti-predatory lending law, the first such comprehensive statute in the country and one that has led to about a dozen states enacting similar laws (Pew Charitable Trust 2008). The organization also played a central role in the successful enactment of a federal law protecting military personnel from payday loans. Self-Help's success has spurred other CDLFs to promote and support similar legislation in their own states. For example, Homewise staff members spent considerable time working with the New Mexico Attorney General's office and with rating agencies to determine their likely responses to the state legislature's proposed anti-predatory lending law, and Loftin leaned hard on the governor to sign it. There is now a general consensus that the passage of the law helped New

Mexico avoid many of the sub-prime problems bedeviling other states. Similarly, Members of the Boston Community Capital management team have participated on the Massachusetts task force on predatory lending, and have been pushing the state mortgage industry association to adopt an updated, stricter code of ethics regarding such loans.

The bulk of the CDLFs' impact at the state and regional level has been on resource allocation, designed to help their target communities. The Mountain Association for Community Economic Development worked with 106 eastern Kentucky banks and 29 counties to issue two mortgage revenue bonds and advocate for changes in rural housing underwriting guidelines. The campaign convinced secondary market purchasers to alter the standards so that thousands of additional rural homeowners could qualify for mortgages. Coastal Enterprises has sponsored successful legislation that used state bond monies to fund working waterfront properties along the Maine coastline as well as capitalize regional revolving business loan funds in the state.

CDLFs also have advocated for resources to fund their own activities. Numerous loan funds, as well as other CDFIs, have been instrumental in the creation of legislation in states such as Illinois, New York, and Pennsylvania to establish state funds that support CDFIs. Clearinghouse and the Low Income Investment Fund, among others, are active in a similar legislative effort presently underway in California. The Connecticut Housing Investment Fund, the Housing Development Fund, and other local CDLFs jointly created the Connecticut CDFI Alliance, which has shaped the guidelines for the state's affordable housing appropriations, successfully pushed for the establishment of a statewide housing trust fund and flexible housing fund, and generally increased both the visibility and legitimacy of the state's affordable housing development industry.

Some of the more resource-rich CDLFs have created internal research centers that focus on issues relevant to state and regional policy. Enterprise Corporation of the Delta (ECD), for instance, has created the Mississippi Economic Policy Center to analyze statewide trends, suggest changes to public funding approaches and priorities, and highlight promising programmatic innovations. TRF's policy department published a 2002 analysis of the fragmented nature of Pennsylvania's workforce development programs, and followed up in 2005 with a similar report illustrating barriers to the development of affordable housing in the commonwealth, and how numerous state and local agencies fail to coordinate their efforts to address the problem. Over the past several years, TRF has issued several reports analyzing patterns of sub-prime lending and sheriff's sales in its target markets. MACED has both conducted and sponsored research on state economic development and child care spending, again with the intent to educate policy-makers about existing conditions and possible improvements.

CDLFs also have become increasingly involved in trying to shape federal policy. Most of those efforts have tended to focus primarily on issues of resource availability and allocation practices. The New Hampshire Community Loan Fund, for example, devoted considerable energy to convincing the federal Department of Agriculture to make financing from its Section 504 and housing rehabilitation programs available for manufactured housing cooperatives. The Kentucky Highlands Investment Corporation (KHIC) played a pivotal role in the creation of the federal

New Markets Venture Capital and Rural Business Investment Company programs. KHIC convinced members of Congress that its own success demonstrated the viability of such an approach, and that its efforts could be replicated on a national scale. The Enterprise Foundation and LISC were instrumental in the passage and subsequent extension of the Low Income Housing Tax Credit. Coastal Enterprises (among others) successfully pushed for the establishment of the federal CDFI Fund and subsequently the New Markets Tax Credit program. More recently, Coastal was one of the organizations leading the campaign that changed the NMTC statute to require that a proportional amount of credits go toward projects and businesses in non-metropolitan areas. LIIF and others are currently working to create federal bonding authority for CDFIs.

CDLFs also have been successful advocates for legislation designed to achieve broader changes in financial service delivery, although such efforts have been much less common than those targeting resource allocation.[10] Both Enterprise and LISC were on the front lines in the campaign to strengthen the Community Reinvestment Act in the mid 1990s. Boston Community Capital, Clearinghouse, and others have periodically been asked to develop policy papers/books for aspiring Presidential candidates. More quietly, the Nonprofit Finance Fund's comments and advocacy led the Federal Reserve to acknowledge that loans and grants to arts and cultural organizations could be counted toward a regulated institution's CRA requirements. NFF senior officials also believe that the IRS heard and heeded NFF's voice in the re-design of the Form 990 annual reporting form for nonprofits. NFF encouraged the agency to change the emphasis and ordering of the questions asked, so that people would not focus on what it terms the "wrong" things□such as the number of people within the organization making more than $100,000.

Conclusions and Recommendations

We found that a number of the CDLFs in our sample, but not all, are consciously trying to have systemic impacts, and in some cases they have had notable success. CDLFs have pioneered new markets benefiting low-income households, communities, or the environment, and have brought traditional financial institutions into these markets by demonstrating their viability. CDLFs have influenced foundations' policies towards community development and environmental concerns. And CDLFs have significantly influenced public policies intended to benefit low- and moderate-income households.

While some CDLFs may have had their largest social impact by influencing the behavior of traditional financial institutions, foundations, or public policy, traditional output measures of impact do not capture such a systemic impact. In fact, traditional output measures could even provide misleading measures of a CDLFs impact. Imagine, for example, that a CDLF successfully demonstrates to banks the viability of financing a new community development

[10] Some CDLFs' reluctance to openly advocate changes in regulatory policies that affect banks likely reflects the organizational challenges of doing so, given the important role that commercial banks play in partnering with and capitalizing CDLFs.

initiative, such as charter schools. If the banks enter this market, the CDLF may be forced to exit due to the competition and its perception that it is no longer needed in this niche. In this situation a traditional output measure of impact, such as the number of community facilities financed or volume of lending, could suggest that the CDLF's community development impact is diminishing when in fact it increased significantly by influencing the behavior of the banks.

We also should recognize that efforts to have such systemic influences can be costly to CDLFs. As we discuss below, in many cases it takes significant financial resources to pioneer new markets and to build the knowledge base and staff capable of influencing the behavior of conventional financial institutions, foundations, or policy-makers. In addition, if a CDLF can demonstrate to traditional financial institutions the viability of a particular market that it has pioneered, it is often fully or partially displaced from this market by those institutions. This has been the experience of a number of CDLFs in our sample that pioneered the financing of affordable housing, charter schools, and other markets. This "success" can have adverse financial consequence for a pioneering CDLF unless it can find more unexploited mission-related market opportunities.

One might wonder whether the CDLFs that are seeking to pioneer new markets or influence government policies should focus exclusively on these activities, and de-emphasize traditional CDLF lending oriented toward business development in low-income communities or the development of affordable housing. The leaders of the CDLFs that are consciously trying to shape the behavior of other entities in an effort to promote systemic change universally rejected this idea. They argued that their work as business-oriented financial institutions with social missions gave them credibility and influence with banks, government agencies, and foundations. As one CDLF leader told us, to be an effective institution promoting regional economic development, he had to build a capital base and a staff with skills in banking, data analysis, and law. His staff had to become aware of economic and policy issues that affect their market. This created a unique nonprofit institution, and foundations, government agencies, and banks listened carefully when he or his staff offered advice, advocated policy changes, or sought to include them in partnerships to finance projects or address social problems. Martin Eakes, the CEO of Self-Help, went even further, telling us that the whole point of starting a community development financial institution was to get to the policy table as a respected player.

What distinguishes CDLFs that promote systemic change?

As we noted above, some of the CDLFs in our sample, in an effort to promote their missions, consciously sought to develop innovative mission-oriented business strategies that other CDLFs might adopt to pioneer markets for traditional financial institutions, or to influence government policies. But the leaders of other CDLFs in our sample expressed no such ambitions. Their CDLFs used traditional CDLF products, such as subdebt or high-touch small-business or affordable-housing finance, to achieve their missions. These CDLFs were more focused on incremental change within their markets. What accounts for this difference?

We cannot offer a scientifically rigorous explanation why some CDLFs saw themselves as agents for systemic change and others did not. But a number of factors both were cited by the CDLF leaders in our sample and appeared to be consistent for the subset of CDLFs we studied. Perhaps the most frequently cited explanation for this difference across the CDLFs was their size and resources. The largest CDLFs, as measured by asset size, tended to have larger staffs with more specialized levels of expertise. They commanded more attention within their markets because they made more and larger loans and could handle more-complex transactions. Their ability to rely on their internal equity capital to fund operations, and to initiate or expand a program, also contributed to their independence and legitimacy within their environments. Being able to self-fund made these CDLFs independent of external funding priorities or fads, enabling them to experiment and invest where they felt their activities would have the greatest social return.

Age also mattered. The older organizations tended to be larger, and had had more time to build credibility and contacts. Therefore it should not be surprising that many of the CDLFs that saw themselves as promoting systemic change were the larger and older organizations that had the staff and financial resources to pioneer new markets and to influence banks, other CDLFs, and government agencies. Since accomplishing systemic change also generally takes time, it should also not be surprising that the clearest examples of CDLFs that have successfully promoted systemic changes tend to be drawn from the older CDLFs.

Beyond the size and age of CDLFs, CDLF leaders frequently mentioned the culture and leadership of CDLFs as influencing CDLFs' strategies for social impact. Some people thought, for example, that CDLFs that were formed by community development corporations were more likely to have a broader vision of the type of changes that they were seeking, and broader strategic initiatives. Everyone we interviewed agreed that leadership mattered. Many of the most innovative CDLFs are headed by self-driven social entrepreneurs, who work to create an entrepreneurial culture that encourages innovation and does not punish failure.

Although we and the people we interviewed noticed these factors, we also all noticed exceptions or qualifications. For one, financial strength is not perfectly correlated with size. Some of the large organizations must operate on very tight organizational budgets because they have a relatively high cost of funds and very little unrestricted equity. Such organizations may not be

able to afford the costs associated with innovating new products or markets, especially if they require long incubation periods. There also are organizations that are small but staffed by very creative and strategic thinkers. Some of these organizations, such as New Hampshire Community Loan Fund when it first began to finance cooperative ownership of trailer parks, pioneered markets despite being small.

It is certainly possible that as the industry grows and matures, more CDLFs will seek to move beyond a focus on transactions and incremental change and shift to promote broader systemic changes. Such a change could be forced if resources going into the industry dwindle. In this case, as has happened with some of the CDLFs in our sample, more CDLFs could become frustrated with the pace of small incremental changes they can accomplish through a transactional focus, and shift to seek a more significant impact by pioneering new markets or strategies, or by influencing government policies. A more pessimistic view, however, recognizes that many of the cases where CDLFs successfully promoted systemic changes required substantial resources. As noted above, often these changes took years to accomplish, a substantial financial commitment, and a large, skilled staff. If the resources supporting CDLFs dwindle, it will be even harder for small CDLFs and less well-capitalized CDLFs to ever gain the scale and financial resources to undertake similar initiatives.

Recommendations

We end this report with three recommendations. First, it is clear that some CDLFs have systemic impacts that are not captured by the traditional outcome measures reported to the CDFI Fund and to CDFI trade associations. All organizations that collect and report traditional outcome data are aware that these data are at best crude indicators of social impact. But it has not been emphasized enough that some CDLFs seek to pioneer markets for banks, influence the strategies and products of other CDLFs, and alter government policies in order to have broader systemic impacts. If they are successful in this regard, the traditional measures do not capture this at all, and in fact can give misleading indications of the CDLFs' social impacts. Our first recommendation is that this shortcoming of traditional outcome measures be more commonly acknowledged.

Second, we recommend that the CDFI Fund and the CDFI trade associations seriously consider implementing methods to track the potential systemic impacts of CDLFs and other CDFIs. We have given substantial thought to how this might be done. In fact, our research is a first approach. We took a diverse sample of CDLFs and interviewed the leaders of these institutions to probe for concrete examples of ways that they might have pioneered new markets or attempted to shape the behavior of banks, government agencies, or other actors in an effort to achieve their missions. We also asked similar questions of knowledgeable people outside of these CDLFs to hear different perspectives. This approach gave us a qualitative understanding of the types of systemic impacts that CDLFs can have and the factors that might determine whether a CDLF is likely to have broad systemic effects.

We do not believe that any research methodology can determine definitive causal links between the results and the efforts of a CDLF to pioneer markets for traditional financial institutions, to shape the strategies and products of other organizations, or to influence government policies. We also strongly believe that it will be nearly impossible in most cases to quantify the significance of the results. The key problem is that we cannot know what would have happened absent the efforts of the CDLF, we cannot sort out precisely the contribution of the CDLF compared to other entities that might also influence the results, and we generally cannot quantify the effect of the final results. Suppose, for example, that a CDLF has worked to demonstrate to banks the viability of financing charter schools, and at a certain point, banks begin to make such loans. In all likelihood, the CDLF's work□both in actual financing and in its educational efforts□helped to shape the banks' new approach to the charter school market. Yet other factors undoubtedly influence the banks' decisions, and separating out the effect of the CDLF's activities would be quite difficult.

In light of these issues, we recommend a qualitative approach with two steps. In a first step, the CDFI Fund or another organization could periodically collect brief descriptive data from a diverse sample of CDLFs of the efforts that they have made to promote systemic change, in the way that we have defined such change. The Fund could ask its funding awardees to report on whether the organization's activities have contributed to;

- Any changes in behavior by banks or other conventional financial institutions (such as a bank increasing its activities in a previously under-served market).
- Changes in behavior by government agencies.
- Changes in local, state, or national public policy.
- Changes in behavior by one or more philanthropic organizations.

In a second step, researchers could conduct case studies in more depth of some of the most interesting examples, attempting to document informally the extent to which the CDLFs were successful in their efforts and the degree to which they played critical roles in the resulting changes.

Our final recommendation is that the individuals and institutions that believe that CDLFs should seek to have broad systemic impacts ought to think deeply about the factors that may be essential to success in this regard. Specifically, it is our strong impression that the CDLFs that are successful need a deep commitment to this goal. They also need the resources, particularly equity capital, to cover the costs associated with pioneering new markets or strategic innovations. In addition to covering the associated costs, they need the scale and professionalism to command the attention of other financial institutions and government entities.

This does not mean that resources to support systemic impacts should not be directed to small, well-managed CDLFs with a strategic vision. After all, all CDLFs begin small. Moreover, some of the large CDLFs that have promoted systemic impacts in the past could, over time, lose the entrepreneurial drive that appears to be a key ingredient to systemic impact. It does mean, however, that those supporters of CDLFs who believe that they should be agents of systemic change need to think carefully about how they can provide these organizations with the financial

strength, staffing, and scale necessary to function as effective pioneers and strategic thinkers, and to command the respect and attention of government and philanthropic entities and diverse financial institutions.

Author Biographies

Julia Sass Rubin is an Assistant Professor of Public Policy at the Edward J. Bloustein School of Planning and Public Policy at Rutgers University. Dr. Rubin's research is in the area of community economic development and community development finance. At present, she is continuing her research examining the use of venture capital and lending for economic development and poverty alleviation. She also is looking at the formulation and likely impact of the New Markets initiatives, and the capital needs of social enterprises. Dr. Rubin has advised a number of organizations in the area of developmental finance, including the United States Small Business Administration, the CDFI Fund of the U.S. Treasury Department, the John D. and Catherine T. MacArthur Foundation, the Appalachian Regional Commission, the Overseas Private Investment Corporation, The Urban Institute, and the New Jersey Redevelopment Authority. Previously, she consulted for McKinsey & Company and worked in brand management for the Procter & Gamble and Eastman Kodak Companies. Dr. Rubin earned her PhD and MA from Harvard University, an MBA with distinction from Harvard Business School, and an AB with honors from Harvard-Radcliffe College. She was a post-doctoral fellow at the Alfred A. Taubman Center for Public Policy at Brown University and spent a year as a Henry Luce Scholar in Bangkok, Thailand.

John Caskey is a professor of economics at Swarthmore College where he teaches courses in finance and urban economics. Professor Caskey's research focuses on the financial services used by low-income U.S. households and on community development financial institutions.

Carla Dickstein is Senior Vice-President for Research and Policy Development at Coastal Enterprises, Inc. (CEI), a CDFI based in Wiscasset, Maine. In 2006 she co-authored a report *Predatory Mortgages in Maine* that led to passage of Maine's strong anti-predatory lending law passed in June 2007. She has also written on community development, worker cooperatives, sustainable development and measurement and impact of CDFIs. Her current policy and research work focuses on public and private sector actions needed to address the foreclosure crisis. Prior to coming to CEI she was on the faculty at West Virginia University's Regional Research Institute and the West Virginia University Extension Service. She holds a B.A. from Smith College, a Masters in Planning from the University of Minnesota, and a Ph.D. in City and Regional Planning from the University of Pennsylvania.

Sean Zeilenbach has been working on issues related to economic development and development finance for the past 20 years. He spent four years at the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund, where he developed a model for underwriting CDFIs, created a framework for assessing the economic and social impacts of these organizations, and was integrally involved with the design and development of the New Markets Tax Credit (NMTC) program. He had previously coordinated fundraising efforts for the Chicago office of the Local Initiative Support Corporation (LISC). He currently consults for a number of community development groups throughout the country on issues of strategic planning, impact measurement, and program / product development. He works closely with both for-profit and nonprofit community development entities in the design and evaluation of their NMTC programs, as well as in the refinement of successful allocation applications. He also consults with the Urban Institute team charged with evaluating the overall impact of the NMTC. Mr. Zielenbach has a Bachelor's degree from Princeton and a doctorate from Northwestern. He is a Senior Consultant with the Chicago-based Woodstock Institute, an organization that works to promote private reinvestment in low-income communities throughout the country. He also operates his own consulting practice and is a member of multiple community development advisory boards.

Appendix A: CDLFs Interviewed

	Community Development Loan Funds	State	Year Began Financing	Housing Financing Provided	Business Financing Provided	Community Facilities Financing Provided
1	Boston Community Capital	MA	1985	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
2	Cascadia	WA	1985		XXXXXXXXX	
3	Clearinghouse CDFI	CA	1997	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
4	Coastal Enterprises, Inc.	ME	1977	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
5	Connecticut Housing Investment Fund	CT	1964	XXXXXXXXXX		
6	Enterprise Corporation of the Delta	MS	1995	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
7	Genesis Fund	ME	1992	XXXXXXXXXX		XXXXXXXXXX
8	Homewise, Inc.	NM	1986	XXXXXXXXXX		
9	Housing Development Fund	CT	1990	XXXXXXXXXX		
10	Idaho Nevada CDFI	ID	2001	XXXXXXXXXX	XXXXXXXXX	
11	Kentucky Highlands Investment Corporation	KY	1968		XXXXXXXXX	XXXXXXXXXX
12	Lenders for Community Development	CA	1995	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
13	Low Income Investment Fund	CA	1985	XXXXXXXXXX		XXXXXXXXXX
14	MACED	KY	1981		XXXXXXXXX	
15	Midwest Minnesota CDC	MN	1971	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
16	Montana CDC	MT	1992		XXXXXXXXX	XXXXXXXXXX
17	Natural Capital Investment Fund, Inc.	WV	2002		XXXXXXXXXX	
18	New Hampshire Community Loan Fund	NH	1984	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
19	New Jersey Community Capital	NJ	1988	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
20	Nonprofit Finance Fund	NY	1984		XXXXXXXXXX	XXXXXXXXXX
21	Primary Care Development Corporation	NY	1996			XXXXXXXXXX
22	Reinvestment Fund, The	PA	1986	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
23	Rural Community Assistance Corporation	CA	1988	XXXXXXXXXX		XXXXXXXXXX
24	Self-Help Ventures Fund	NC	1985	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX
25	ShoreBank Enterprise Pacific	WA	1995	XXXXXXXXXX	XXXXXXXXX	XXXXXXXXXX

Appendix B: Stakeholder/Observers Interviewed

	Stakeholder/Observer Name	Organizational Affiliation
1	Dudley Benoit	JP Morgan Chase
2	Malcolm Bush	Woodstock Institute
3	Frank F. DeGiovanni	Ford Foundation
4	Dan Immergluck	Professor, Georgia Tech; formerly with Woodstock Institute
5	Maurice Jones	Former Director of CDFI Fund; Board member numerous CDLFs
6	George W. McCarthy, Jr.	Ford Foundation
7	Delores McKinnon	COIN
8	Kirsten Moy	Director, Aspen Institute FIELD Program; former Director of CDFI Fund
9	Libby Parsons	Accion
10	Mark Pinsky	Opportunity Finance Network
11	Bob Rapoza	Rapoza and Associates
12	Greg Ratliffe	Gates Foundation; formerly MacArthur Foundation
13	Brian Segal	HSBC Bank; formerly LISC
14	Ellen Seidman	ShoreBank and New America Foundation
15	Mark Willis	Chase/JP Morgan Bank

Appendix C: CDLF Interview Protocol

Note: This protocol is intended to indicate the issues that we will investigate and to ensure a reasonable degree of similarity across the interviews. The protocol is not meant to be a transcript with the exact wording for each question. It does not always instruct the interviewer to probe for specific examples or details since everyone on the research team already knows to do this. In addition, CDFIs can differ substantially in their goals and operations, so some questions will have to be adjusted to fit particular idiosyncrasies. Finally, there is substantial overlap across the questions. In addressing one of the early questions, for example, a respondent may implicitly answer one of the later questions. If so, the interviewer may skip or adjust the later question.
Date of interview:

Name of the person interviewed:

Name of CDFI:

How long have you worked at _____ and in what capacities?

<u>Questions about the CDFI's market and changes in that market</u>

1. What is the current mission and target market(s) of _____ (i.e. who is it trying to serve and what is it trying to do in its target market)?

- Has this mission changed over time? If so, how and why?
- Has the target market changed over time? If so, how and why?

2. What products or services are currently offered by _____?

Probes: loan guarantees / risk mitigation products; green-related products; technical assistance; retail services; subprime rescue products, etc.?

- Have the products or services of _____ changed over time? If so, when, how and why?

Probes: To what extent did the evolution in products & services result from changes in the characteristics of the target market, competition from other lenders, recognition that the products/services weren't achieving the desired results, etc.?

3. To what extent are or were these products/services especially innovative within your target market and/or within the development finance industry?

- In your view, what drove this innovation or innovations? A desire to find ways to serve underserved markets cost-effectively, pressures created by changing market conditions, or something else?
- What resources and capacity were necessary to innovate?

4. Could you walk me through how _____'s current products/services are expected to benefit its target market, e.g. broadly speaking, what is your theory of change?

5. How would you define success for _____?

   - Has this definition of success changed over time? If so, how and why?

   - How effective have you been in achieving your benchmarks of success? Where have you been most successful? Least successful? Why?

6. Do you think of _____ as having a particular niche or niches in serving its target market? What creates this niche or these niches, i.e. why don't conventional financial institutions provide these niche products or services?

   - Has the niche or niches of _____ changed over time? If so, when, how, and why?

7. Could a conventional for-profit financial institution do what _____ does? If not, why not? If yes, what benefit(s) does _____ provide that the conventional institution does not?

8. Do other CDFIs within the region or do conventional financial institutions, such as banks, compete with _____ within the markets its serves? If not, why not? If so, what is the nature of this competition?

   - Has the extent / nature of the competition changed over time? If so, when, how, and why?

   - Has this competition affected your sustainability? If so, how?

9. Does _____ occasionally or frequently work with banks or other conventional financial institutions in serving its target market? In what ways?

   - Has this changed over time? If so, when, how and why?

   - What, if any, consequences has this had on the organization's sustainability?

10. Have any changes in the activities of conventional financial institutions operating within your target market caused _____ to change what it does? Specific examples?

11. Have the activities of _____ changed what conventional financial institutions do within the target market? Specific examples?

Probes: How much was the change due to the CDFI, the market, or regulations such as CRA, federal guidance on predatory lending?

<u>Questions about efforts to shape the behavior of other institutions</u>

12. Has _____ engaged in public policy advocacy initiatives as part of its social mission? Has _____ unintentionally influenced public policies?

   - If so, can you provide some specific examples? Were the efforts effective? Is there anyone else within _____ whom I should speak with about

this? Is there anyone outside of _____ with whom I could speak who might be able to provide an independent perspective on _____'s efforts and its effectiveness?

- What is the organizational process to decide whether to undertake the initiative?

- What resources, capacity, partnerships were needed to undertake the initiative?

13. Has _____ tried to influence the behavior of government agencies as part of its social mission? Has _____ unintentionally influenced the behavior of government agencies?

- If so, can you provide some specific examples? Were the efforts effective? Is there anyone else within _____ whom I should speak with about this? Is there anyone outside of _____ with whom I could speak who might be able to provide an independent perspective on _____'s efforts and its effectiveness?

14. Has _____ tried to influence the behavior or policies of philanthropic foundations as part of its social mission? Has _____ unintentionally influenced the behavior of philanthropic foundations?

- If so, can you provide some specific examples? Were the efforts effective? Is there anyone else within _____ whom I should speak with about this? Is there anyone outside of _____ with whom I could speak who might be able to provide an independent perspective on _____'s efforts and its effectiveness?

15. Has _____ tried to influence the activities or policies of banks or other conventional financial institutions as part of its social mission? Has _____ unintentionally influenced the behavior of banks or other conventional financial institutions? Specifics?

- If so, can you provide some specific examples? Were the efforts effective? Is there anyone else within _____ whom I should speak with about this? Is there anyone outside of _____ with whom I could speak who might be able to provide an independent perspective on _____'s efforts and its effectiveness?

16. Has _____ (intentionally or not) influenced the activities or policies of other CDFIs?

- If so, can you provide some specific examples? Were the efforts effective? Is there anyone else within _____ whom I should speak with about this? Is there anyone outside of _____ with whom I could speak who might be able to provide an independent perspective on _____'s efforts and its effectiveness?

17. Has _____ tried to influence the activities or policies of any other organizations, beyond those we have been discussing, as part of its social mission? Has _____ unintentionally influenced the behavior of other organizations? Specifics?

- If so, can you provide some specific examples? Were the efforts effective? Is there anyone else within _____ whom I should speak with about this? Is there anyone outside of _____ with whom I could speak who might be able to provide an independent perspective on _____'s efforts and its effectiveness?

18. Were there any internal reactions or stresses as a result of any of these advocacy efforts? (e.g. board members who didn't agree with goals or methods?)

Further questions about innovation

19. Can you think of examples of innovative actions by _____ that have influenced the behavior of other CDFIs?

20. Can you think of examples of (innovative) actions by _____ that have influenced the behavior of conventional financial institutions or nonfinancial organizations?

21. Can you think of innovative products/services introduced by other CDFIs that you borrowed and adapted to your own target market?

22. Are any recent changes in market conditions likely to force _____ to change what it does? If so, what are these changes and how are they likely to affect _____?

Appendix D: Stakeholder/Observer Interview Protocol

CDFI Characteristics / Niches

1. What do you consider to be the CDFIs' niche(s) in the financial marketplace?
2. How do CDFIs differ from conventional lenders (markets, products, approach, etc.)?
3. Could banks do what CDFIs do? Why / why not? If they could, why are CDFIs still around?
4. What role can / do CDFIs play in the provision of financial products / services? How about in community development more broadly?

CDFI Impacts

5. How do you define impact for a CDFI? How do you assess whether and to what extent a CDFI is having an impact?
6. What CDFI(s) do you believe have had the greatest impact, and why?
7. What do you consider to be the most innovative / successful things that CDFIs have done (in terms of products, approaches, policy, etc.)?
8. What's realistic to expect of CDFIs? Is it enough simply for them to be alternative lenders?

CDFI Influence

9. What influence have CDFIs had on your institution? Examples? (This should be a more general question for those not specifically associated with a bank, foundation, or public agency.)
10. Impact on other institutions you've seen? On policy? On other CDFIs? On other organizations?
11. In what ways has your institution affected CDFI behaviors (positively or negatively)?

CDFI Evolution

12. What have been the key changes that you have seen within the CDFI industry? What brought those changes about?
13. What are the major issues that the industry faces? Where do you see the CDFI industry in 10 years? Where should it be in 10 years?

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