CDFI Investing for the Impact Investor

September 2019

COMMUNITY
CAPITAL MANAGEMENT
Impact Investing Since 1999

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As an impact investor with two decades of experience in community investing, Community Capital Management (CCM) has always been a supporter of, and investor in, community development financial institutions (CDFIs). CCM's clients often ask to have some of their assets targeted to programs and investments that support CDFIs and the CDFI movement. CCM has successfully invested in, and with, CDFIs in many different forms over the years. These include short-term placements in CDFI issued notes, certificate of deposits (CDs), or money market funds; direct CDFI asset-backed security issuances; and direct CDFI bond issuances. This report shares details of these specialized financial institutions, including their history, offerings available, ratings, and how CCM supports CDFIs along with case studies of how CCM has invested in CDFIs over its 20-year history.

THE CDFI FUND

The CDFI Fund's purpose is to promote economic revitalization and community development in low-income communities through investment in and assistance to CDFIs. It is an agency of the United States Department of the Treasury and was established by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative.

History of CDFI's

CDFIs are private financial institutions dedicated to delivering responsible, affordable lending to help underserved people and communities join the economic mainstream.[1]

The CDFI concept is part of a rich history of self-help credit. From the immigrant guilds of New York City's Lower East Side and the Prairie Populists of the late 1800s to African-American communities forming the first community development credit unions in the 1930s, communities have sought self-help credit solutions because traditional financial institutions have ignored or abandoned them.[2] From the creation of credit unions in the 1930s and 1940s and community development corporations beginning in the 1960s and 1970s, to the more recent emergence of non-profit loan funds in the 1980s, the predecessors to CDFIs sought to better the conditions in economically underserved markets.[3]

It was in the 1990s that the industry expanded noticeably:

- The CDFI Fund was established in 1994
- Revised Community Reinvestment Act (CRA) regulations in 1995 began recognizing loans and investments in CDFIs as a qualified CRA activity
- The industry began drawing new sources of backing given their history of success

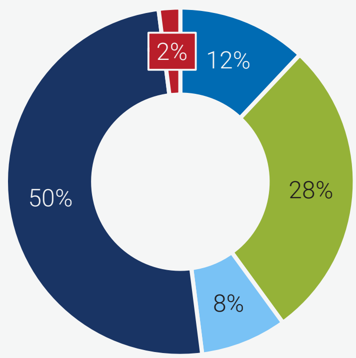
In the years since the 2008 financial crisis, investors have had increased appetite for local, place-based investment solutions including CDFIs. Today, there are over 1,100 certified CDFIs in rural and urban areas across the country.

Types of Certified CDFIs

Percentage by type of 1,112 certified CDFIs as of Sept. 30, 2018

Source: CDFI Fund 2018 Report

Bank or Thrift	12%
Credit Union	28%
Depository Institution Holding Company	8%
Loan Fund	50%
Venture Capital Fund	2%



Investing with CDFIs

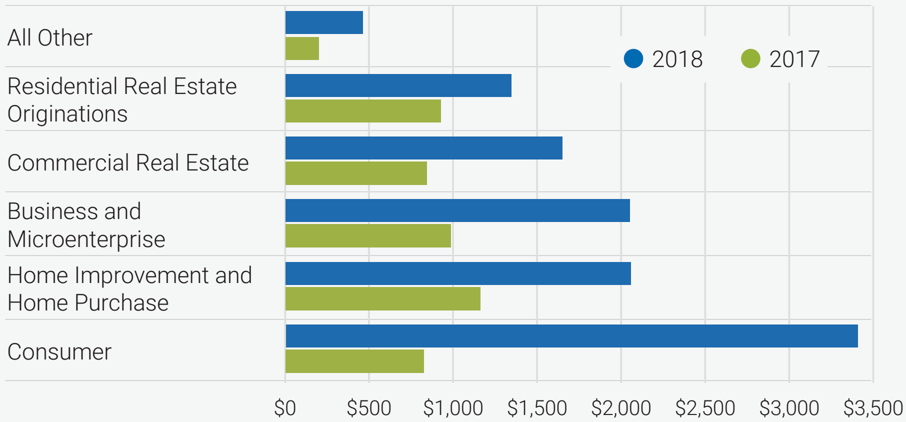
Banks can receive positive Community Reinvestment Act (CRA) consideration for their investments in CDFIs under the investment or lending test.

CDFIs offer deep impact community investing opportunities across a range of themes and geographies in the United States. CDFIs deliver social impact investments typically with near market returns that are closely aligned with impact investors' values and commitment to improving their communities.[4] CDFIs finance community businesses, including small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing.

CDFI Program Awardee Investments

2018 vs. 2017
in millions

Source: CDFI Fund 2018 Report

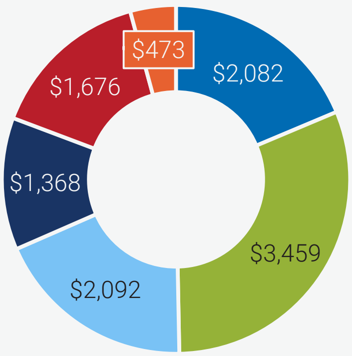


Loans and Investments of Previous CDFI Program Awardees for 2018

In millions; based on program activities reported in 2017

Source: CDFI Fund 2018 Report

Business and Microenterprise	$2,082
Consumer	$3,459
Home Improvement and Home Purchase	$2,092
Residential Real Estate Originations	$1,368
Commercial Real Estate	$1,676
All Other	$473



Types of CDFIs

There are four types of CDFIs: banks and bank holding companies, credit unions, loan funds, and venture capital funds. CDFIs can be organized as for-profit or non-profit entities. CDFI banks, bank holding companies, and credit unions are depository institutions regulated by federal and state agencies. CDFI loan funds and venture capital funds are not federally insured financial institutions and therefore are not subject to oversight by the federal banking regulators. Each of the four types of CDFIs has a different legal structure and unique investment opportunities and provides a different mix of financial products and services to reach specific customers in low-income communities.[5]

Community Development Banks	Community development banks provide capital to rebuild economically distressed communities through targeted lending and investing. They are for-profit corporations with community representation on their boards of directors. Depending on their individual charter, such banks are regulated by some combination of the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and state banking agencies. Their deposits are insured by FDIC.
Community Development Credit Unions	Community development credit unions (CDCUs) promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people, often with special outreach to minority communities. They are nonprofit financial cooperatives owned by their members. Credit unions are regulated by the National Credit Union Administration (NCUA), an independent federal agency, by state agencies, or both. In most institutions, deposits are also insured by NCUA.
Community Development Loan Funds	Community development loan funds (CDLFs) provide financing and development services to businesses, organizations, and individuals in low-income communities. There are four main types of loan funds: microenterprise, small business, housing, and community service organizations. Each is defined by the client served, though many loan funds serve more than one type of client in a single institution. CDLFs tend to be non-profit and governed by boards of directors with community representation.
Community Development Venture Capital Funds	Community development venture capital (CDVC) funds provide equity and debt-with-equity-features for small and medium-sized businesses in distressed communities. They can be either for-profit or non-profit and include community representation.

Source: Opportunity Finance Network

CDFI Ratings

Since 2004, Aeris®[6] has been rating the financial strength and impact management capacity of community development lenders. The organization provides comprehensive, third-party assessments that focus on capital strength, asset quality, management strength, earnings quality, and liquidity. It also assesses how well a CDFI's lending and program activities align with its social or environmental mission and how well the CDFI measures and manages the impact it creates. Aeris collects and makes available to investors standardized quarterly financial, portfolio, and impact performance data to support investment monitoring. Originally organized as CARS®, or CDFI Assessment and Ratings Systems, in June 2014, the organization was renamed Aeris Insight Inc. to better reflect the expansion of its services into impact investor markets.[7]

In addition to Aeris® ratings, CDFIs can also receive credit ratings from rating services such as Standard & Poor's (S&P). A high credit rating helps a CDFI affirm their financial strength, track record, and business discipline while also opening doors for new partnerships with investors. S&P began analyzing the CDFI industry in 2015 using its criteria for state housing finance agencies and evaluates earnings quality, financial strength, and capital adequacy; debt levels and types; and overall strategy and management. S&P ratings can take months to obtain and typically requires a very thorough and detailed audit of the CDFI. S&P does consider a CDFI's social mission in their evaluation and rating.[8]

> *There are a variety of investments in which organizations like CCM and other impact investors – whether socially-motivated individuals, religious organizations, or foundations – can invest to support underserved and economically distressed markets through CDFIs. These include, but are not limited to, public debt offerings, loan funds, community/impact notes, and certificate of deposits.*

CCM and CDFIs

For many years, there have been challenges for clients who wanted to invest directly into CDFIs. Technical issues of custody, pricing, liquidity, and the like have been impediments for investors who would otherwise support CDFIs. CCM uses its size, scale, and financial sophistication to support CDFIs on behalf of its clients. There are a variety of investments in which organizations like CCM and other impact investors – whether socially-motivated individuals, religious organizations, or foundations – can invest to support underserved and economically distressed markets through CDFIs. These include, but are not limited to, public debt offerings, loan funds, community/impact notes, and certificate of deposits.

CCM's 18 Impact Themes and CDFIs

Throughout CCM's pioneering work in impact/ESG investing, we have developed a series of impact themes, where one or more themes are associated with each of our investments. The themes cover a wide variety of issues and opportunities of interest to our clients. The creation and evolution of these impact themes have occurred in response to changing markets and the growing availability of impact/ESG investments. While the themes are distinct and diverse, certain characteristics in keeping with the mission of CDFIs can be found in many of

CCM's current themes – to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream. We have included six of our 18 impact themes that we believe align with the mission of CDFIs.

Economic Inclusion

Assisting and supporting the process of bringing targeted groups, individuals, and communities, including immigrants and refugees, closer to the economic mainstream and capital markets. Financial literacy training, loans to first-time homebuyers, small business loans, rent-to-own housing programs, and "banking the unbanked" initiatives are all examples of economic inclusion opportunities.

Affordable Housing

Financing for affordable homeownership to low- and moderate-income borrowers and renters, including workforce housing,[9] and investing in opportunities that promote affordable homeownership and access to quality living.

Transit- Oriented Development (TOD)

Creating vibrant, livable, and sustainable communities through the integration of compact, walkable, pedestrian-oriented, mixed-use communities centered around high-quality train systems.[10]

Arts & Culture

Supporting educational programs, businesses, organizations, and the development of properties involved with visual, performing, design, literary, and other art-related works.

Minority Advancement

Supporting communities with a high minority population (over 50 percent), programs offering equal access to jobs, economic development, and affordable housing. Investing in opportunities with minority leadership, workplace equity, services beneficial to minorities, and related shareholder engagement and policy work.

Neighborhood Revitalization

Transforming blighted neighborhoods into areas of opportunity and vibrant, safe places to live by assisting in the revitalization of neighborhood facilities.

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Case Studies: CCM Investments in CDFIs

CCM has successfully invested in, and with, CDFIs in many different forms over the years. The examples below highlight some of the CDFI opportunities in which CCM clients have participated.

SHORT-TERM PLACEMENT IN CDFI ISSUED NOTES, CDs, OR MONEY MARKET FUNDS

Virginia Community Capital

Virginia Community Capital (VCC) began with a vision to create jobs, enhance the quality of life, and promote vibrant communities in Virginia's underserved markets and regions. VCC was established in 2006 as a CDFI with an initial $15 million investment under Governor Mark R. Warner. The goal was to leverage that initial investment for an economic return to underserved areas. Since its founding, VCC-financed projects have created or retained more than 5,500 jobs, financed over 5,000 affordable housing units, and funded nine much-needed healthcare facilities. VCC's staff has provided more than 14,000 hours of free advising. All told, more than 7 million square feet of business and housing spaces have been created or rehabilitated with VCC's leadership.[11]

Self Help Credit Union

Self-Help Credit Union's (SHCU) mission is creating and protecting ownership and economic opportunity for all. This is done by providing responsible financial services, lending to small businesses and non-profits, developing real estate, and promoting fair financial practices. While their work benefits communities of all kinds, their focus is on those who may be underserved by conventional lenders, including people of color, women, rural residents, and low-wealth families and communities. Founded in Durham, NC, in 1980, Self-Help is a non-profit community development lender, real estate developer, and credit union that serves communities traditionally underserved by conventional markets. They have provided over $7.1 billion in financing to more than 146,000 families, small businesses, and non-profits across the country.[12]

Carver Federal Savings Bank

Carver Federal Savings Bank was founded in 1948 to serve African-American communities whose residents, businesses, and institutions had limited access to mainstream financial services. Today, Carver is the largest African-American operated bank in the United States. Since its inception, the Bank has continuously been headquartered in Harlem, and most of its eight branches and 24/7 ATM Centers are located in low- to moderate-income neighborhoods. Carver Bank has been designated by the U.S. Treasury Department as a CDFI because of its community-focused banking services and dedication to the economic viability and revitalization of underserved neighborhoods. A measure of its progress in achieving this goal includes the Bank's most recent "Outstanding" Community Reinvestment Act rating.[13] Over the past nine years alone, they have provided financial education training to approximately 15,000 people in Greater New York City. On top of that, they have provided lending solutions and invested approximately $85.2 million in business loans to help stimulate growth in their local neighborhoods over the past three years.[14]

CDFI ABS ISSUANCE

Oportun

Oportun, formerly known as Progreso Financiero, was certified by the U.S. Treasury Department in 2009 as a CDFI. Since Oportun opened its doors in 2005, they have worked hard every day to serve the approximately 100 million people in the United States who are typically shut out of the financial mainstream because they don't have a credit score or have limited credit history. Their mission-based, technology-powered approach is designed to be inclusive, affordable, and empowering. By lending money to hardworking, low- to moderate-income individuals, Oportun helps its customers move forward in their lives, demonstrate their creditworthiness, and establish the credit history they need to access new opportunities. Oportun has provided more than 3.1 million affordable small-dollar loans that have saved customers an estimated $1.4 billion in interest and fees compared to alternative lenders.[15]

CDFI BOND ISSUANCE

Community Reinvestment Fund

Founded in 1988, Community Reinvestment Fund, USA (CRF) is a national non-profit organization with a mission to empower people to improve their lives and strengthen their communities through innovative financial solutions. As a leading CDFI, CRF supports mission-driven organizations through the development of products and services aimed at increasing the flow of capital to historically underinvested communities across the country. By transforming the community development finance system, CRF and its partners are building stronger local economies, enhancing job growth, and supporting economic mobility. That means more business start-ups, more funding for business expansions, more resources for hiring and retaining talent, and greater economic empowerment for everyone living and working in under-invested communities. Since 1988, CRF has financed more than $2.4 billion to change lives and transform neighborhoods.[16]

LISC

Together with residents and partners, Local Initiatives Support Corporation (LISC) forges resilient and inclusive communities of opportunity across America – great places in which to live, work, visit, do business, and raise families. LISC's role as a non-profit CDFI is to provide capital to projects in low-income, disadvantaged, and underserved communities at affordable rates. There are nearly 1,000 CDFIs in the country and LISC is one of the largest. LISC offers capital to local non-profit developers, small businesses, and other service providers who may not be able to get credit in the conventional marketplace. Their loans have financed affordable housing, supermarkets, schools, health centers, and other vital community projects. In addition, they bring equity primarily through their investment companies, to projects in housing, retail and commercial centers, small businesses, and cultural districts. All told, they have invested $20 billion in communities across the country.[17]

Enterprise

Enterprise's mission is to create opportunity for low- and moderate-income people through affordable housing in diverse, thriving communities. To date, Enterprise has created nearly 585,000 homes, invested $43.6 billion, and touched millions of lives. Their vision is that one day, every person will have an affordable home in a vibrant community, filled with promise and the opportunity for a good life. One of the largest nonprofit loan funds in the country, Enterprise Community Loan Fund has invested more than $1.7 billion across the country since 1990. Working with mission-focused partners, they align their investments alongside Enterprise's other financing capabilities and local expertise. The Loan Fund brings a suite of financing, policy, and programmatic solutions to bear when addressing complex problems. By joining these critical drivers, they deliver greater opportunity to the communities that need it most.[18]

Capital Impact Partners[19]

Through capital and commitment, Capital Impact Partners (Capital Impact) helps people build communities of opportunity that break barriers to success. Capital Impact champions social and economic justice for underinvested communities to foster good health, economic opportunity, and interconnectedness. Through mission-driven lending, social impact program incubation, impact investing, and policy reform, the organization partners with local communities to create equitable access to health care and education, healthy foods, affordable housing, and dignified aging for those most in need. Capital Impact has disbursed more than $2.7 billion to serve nearly five million people and created more than 32,500 jobs as part of its efforts to revitalize communities nationally over the past 35 years. Its leadership in delivering financial and social impact has resulted in Capital Impact earning an "A+" rating from S&P Global and being recognized by Aeris since 2005. Headquartered in Arlington, VA, Capital Impact Partners operates nationally, with local offices in Detroit, MI, New York, NY, and Oakland, CA. Learn more at www.capitalimpact.org.

Reinvestment Fund

Reinvestment Fund is a national mission-driven financial institution that creates opportunity for underserved people and places through partnerships. They marshal the capital, analytics, and expertise necessary to build strong, healthy, and more equitable communities. Reinvestment Fund is a catalyst for change in low-income communities. They integrate data, policy, and strategic investments to improve the quality of life in low-income neighborhoods. Using analytical and financial tools, Reinvestment Fund brings high-quality grocery stores, affordable housing, schools, and health centers to the communities that need better access—creating anchors that attract investment over the long term and help families lead healthier, more productive lives. Two million people have been positively impacted by their investments. Reinvestment Fund's CDFI Bond Guarantee Program (BGP) provides long-term, fixed-rate capital to support projects that create jobs and increase access to critical services in underserved communities across the nation.[20]

Conclusion

CDFIs can play a meaningful role in impact investors' portfolios. Individual and institutional investors can place money directly with CDFIs, or support CDFIs indirectly by investing in a vehicle that places money in the CDFI arena. As the impact investing community grows, it will be an ever-increasing source of support for the CDFI industry. CCM hopes to continue to play a role by investing in CDFIs, by working with CDFIs to find new and innovative capital market solutions, and by encouraging clients to consider including support for CDFIs in their asset allocation and manager selection decisions.

1 https://ofn.org/CDFIs
2 http://cdfi.org/about-cdfis/what-are-cdfis/
3 https://www.cdfifund.gov/Documents/CDFI_infographic_v08A.pdf
4 https://ofn.org/investors
5 https://www.fdic.gov/consumers/community/cdfi/cdfis_sectionii.pdf
6 David Sand, CCM's chief impact strategist, is on the board of Aeris
7 https://www.aerisinsight.com/
8 https://www.philadelphiafed.org/community-development/publications/cascade/89/03_breakthrough-in-cdfi
9 The most common definition of workforce housing comes from the Urban Land Institute, which defines workforce housing as: "housing that is affordable to households earning 60 to 120 percent of the area median income."
10 http://www.tod.org/
11 https://www.vacommunitycapital.org/about/
12 https://www.self-help.org/
13 https://www.carverbank.com/index
14 https://www.carverbank.com/pdf/CarverShareholderLetter2019_final_cs6_updated9july2019.pdf
15 https://oportun.com/about/
16 https://crfusa.com/
17 http://www.lisc.org/
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