February 12, 2021

RE: Docket Number R-1723 and RIN Number 7100-AF94

To Whom It May Concern:

CDFI Friendly America is writing to commend the Board of Governors of the Federal Reserve System for its efforts to modernize the Community Reinvestment Act (CRA) while minimizing potential negative effects on historically under-resourced and underserved people and communities.

The Federal Reserve's proposal is important on its own and as a better alternative than the CRA rule put forth by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation in May 2020.

CRA is a vital law that lifts up the positive impacts and mitigates the negative ones that banks and other financial services companies often have on people and communities they are chartered to serve. Since its implementation in 1978, it has spurred trillions of dollars in new investment in opportunity communities, those where opportunities are greater than are their abilities to access affordable, often flexible, financing to realize those opportunities.

One key strategy CRA has utilized since 1995 is encouraging banks to partner with community development financial institutions (CDFIs). Often hand-in-hand with investments decisions made by the CDFI Fund in the U.S. Department of the Treasury, CRA has increased local control over credit and investment decisions by CDFI intermediation.

As Partners in CDFI Friendly America, the two of us come from the CDFI industry. We both have worked in the CDFI sector since the 1980s. In 2020, we formed CDFI Friendly America to introduce the $220+ billion CDFI industry to some of the 10,000+ communities in the United States that do not currently have access to CDFIs and CDFI financing.

CDFIs have demonstrated their value and efficacy in those communities where they are working. In fact, however, we estimate that CDFIs serve fewer than 2,500 of the more than 15,000 communities in the U.S. In addition, in many communities where CDFIs have worked there remains significant unmet demand for CDFI financing.

CDFI Friendly America is predicated on the belief that both CDFIs and many of the communities they do not currently serve would benefit.

To date, we have established two CDFI Friendly Communities—Bloomington, IN, and South Bend, IN, and we are working in several more communities. In Bloomington, where CDFIs had invested less than $5 million total from 2003-2017, a 15-year span, CDFIs invested more than $15 million in the first year of CDFI Friendly Bloomington. We expect that amount to grow to more than $50 million within 5 years. In South Bend (with approximately $3 million in CDFI financing over 15 years prior to creation of CDFI Friendly South Bend), CDFIs delivered $700,000 in emergency business financing during early and mid-2020. Those and other CDFIs have lined up close to $10 million in new financing they expect to pursue.

Mark Pinsky, Founding Partner — Adina Abramowitz, Managing Partner

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The CDFI Friendly strategy is based on a public-private intervention model. Our organization works with public and private organizations as well as community members to explore, education, organize, plan, and implement a CDFI Friendly strategy. We work in four phases over 18-24 months to establish a new, small nonprofit entity that fulfills two functions:

- First, it pairs local financing opportunities to CDFIs in other places—sometimes in the same region but often in other regions.
- Second, it offers enhancement financing to help CDFIs operating outside the market to manage risks by having a local investor in a *pari passu* position.

While this model is new, it is promising.

We know from our experience in the CDFI industry that both CRA and CDFIs are frustrated by the difficulty of targeting resources to smaller markets and rural communities. In addition, local strategies often struggle to meet the full range of local financing needs. For instance, our home city of Philadelphia is reasonably well-served by CDFIs and other CRA efforts for housing and nonprofit finance, but Philadelphia's entrepreneurs of color are substantially underserved.

A CDFI Friendly "infill" approach could help provide the business financing needs by helping CDFIs from other cities to work in Philadelphia without having to establish offices of their own. This approach would preserve the ability of Philadelphia-area banks to make CRA commitments in their home communities and so avoid the risk of banks getting credit for out-of-market investments, a concern you address on page 66450 of your notice. In Philadelphia, this is especially important as the City Council is discussing whether to start a "Public" Bank for this purpose. Using proven, existing financing strategies seems safe, sounder, and more effective.

Indeed, helping CDFIs expand their geographic coverage is a top priority of the CDFI Fund in the Department of the Treasury. We support expansion of the Act to allow banks credit for investments made out of their defined footprints, particularly when the banks offer non-depository services outside of their footprints or when those investments, grants, and/or loans would enable CDFIs to serve markets that otherwise are under-resourced.

At the same time, CDFIs are embracing the CDFI Friendly model because they want to expand their coverage. They do not want to establish fully staffed offices in smaller markets, however, and they welcome the chance that CDFI Friendly America presents to work with knowledgeable partners with feet on the ground.

For those reasons, CDFI Friendly America encourages the Board of Governors to:

- *Recognize the value of CDFI Friendly strategies under CRA,*
- *Help banks learn about CDFI Friendly opportunities, and*
- *Give credit in CRA assessments to those banks that work with, invest in, lend to, and otherwise support CDFI Friendly efforts.*
-

CDFI Friendly America is the most promising model available to bring CDFIs to rural, small-market, and other communities where they are needed.

We applaud the Board of Governors for working to ensure the long-term vitality of communities across the United States by preserving and protecting the Community Reinvestment Act.

Mark Pinsky, Founding Partner Adina Abramowitz, Managing Partner
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Sincerely,

Mark Pinsky
Founding Partner

Adina Abramowitz
Managing Partner

Attachment: Please find attached a White Paper we prepared to explain the CDFI Friendly model and to document the first two CDFI Friendly Cities.

"If you are a mayor or council member or local advocate, you need to understand and embrace the CDFI Friendly tool because it can transform lives for people in your community."

Mayor John Hamilton, Bloomington, IN

CDFI FRIENDLY AMERICA

A WHITE PAPER INTRODUCING THE CDFI FRIENDLY STRATEGY FOR SMALLER CITIES & TOWNS

By Mark A. Pinsky & Adina Abramowitz

CDFI
FRIENDLY
AMERICA

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Design & Production by Five/Four Advisors, Sonja Karnovsky & Bria Moss-Wilkerson

www.cdfifriendlyamerica.com

WELCOME TO CDFI FRIENDLY AMERICA

We have been working with CDFIs for a long time. We believe in CDFIs so deeply that we have dedicated our careers to helping them succeed. Now we are excited to lead a new strategy to make it easier for CDFIs to work in smaller communities by helping leaders in those towns and cities work with CDFIs. We are on a mission to bring the CDFI industry to underserved communities in towns and small cities across the nation.

Our vision is a national network of CDFI Friendly Communities using CDFI financing to do more for the people who live and work in them.

We did the math: today there are 1,100 CDFIs in all 50 states managing more than $220 billion on the one hand. On the other hand, thousands of small cities and towns do not have access to CDFIs. That adds up to a national challenge and opportunity impacting millions of people. We work with CDFIs so we know that many are ready to lend in more places and create opportunities for more people. And as we have talked about and explored the CDFI Friendly model over the past few years, we learned just how eager lots of towns and small cities are to benefit from CDFI financing.

We teach CDFI Friendly Communities how to leverage the creative financing and experience of regional and national CDFIs—to be CDFI ready. CDFI Friendly Communities make it easier for CDFIs to identify and finance deals in their cities and towns when there are definable needs but little CDFI presence.

CDFI Friendly America is good for towns and smaller cities, for the people who live there, and for the private and public leaders who serve them. It is good for CDFIs, as well as local, state, and federal policy makers who benefit when resources are allocated where they are needed and used well.

The potential for community, economic, and impact success at scale is real. Community leaders know it. The CDFI industry sees the potential. CDFI Friendly America leverages CDFIs that have proved over time their ability to play transformative roles in a transactional business. And the CDFI Fund made expanding geographic coverage a strategic priority in 2017.

If you're interested in making your community CDFI Friendly, let's talk. We want to introduce you to CDFI Friendly America. Please visit us at www.cdfifriendlyamerica.com to learn more and to join our effort. And please give us a call when you are ready. Together we can match the potential of communities like yours to the power of CDFIs to achieve levels of impact that once seemed out of reach.

Adina Abramowitz
Managing Partner

Mark A. Pinsky
Founding Partner

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THE BIG IDEA

The purpose of this White Paper is to introduce a new way for America's small cities and towns to attract flexible, affordable financing to address gaps in markets outside the economic mainstream.

This approach is called "CDFI Friendly" because it centers on how communities can make it easier for community development financial institutions (CDFIs) to finance affordable housing, small businesses, nonprofits, and commercial real estate in their towns. CDFI financing is important because it finances things that produce real benefits for people and communities. Without CDFI involvement, many projects would not get done.

CDFI Friendly cities and towns can see a significant increase in financing for important but challenging elements in their communities such as affordable housing, nonprofit buildings, flexible small business financing, and more.

As a result, these communities can be more vibrant, economically stronger and more resilient, and better able to decide their own futures. CDFIs are able to expand their impact as mission-driven lenders and to strengthen their balance sheets by efficiently lending more money in more places.

Our CDFI Friendly strategy bridges the obstacles that have long made it difficult for many communities—notably small cities and towns—to make use of the full range of CDFI financing that most large and many mid-sized cities have access to.

CDFIs are private financial intermediaries that exist to customize financing solutions to the issues that people are experiencing where they live and work. Nationally, they have achieved significant scale—more than $220 billion in assets—but CDFIs are not working in all the markets that need them. We estimate that there are thousands of places in the US that would benefit from CDFI financing.
Our strategy addresses the obstacles that CDFIs face when they try to serve smaller cities and towns. Most, if not all, of those places have broad needs but shallow supply of financing opportunities, making them easy for CDFIs to overlook or avoid. Like other financial institutions, CDFIs need enough business to support their operations, and their business is borrowers. When CDFIs finance loans, they monitor and support them closely. That is costly and difficult to do in smaller cities and towns.

For those reasons, our CDFI Friendly model requires several things. First, it requires a local CDFI liaison, a broker who identifies opportunities and tells CDFIs about them. Second, it requires an outreach and marketing effort. Third, it requires the financial capacity to put a community's own "skin in the game" alongside CDFIs working at a distance. This risk-sharing reduces substantially the potential risks for CDFIs that they are unable to monitor and support their borrowers as closely as the CDFI business model requires.

We make introductions, we assess viability, we organize local markets, we test our assumptions, we build sustainable business plans, and we implement community-vetted solutions.

First in Bloomington and then in South Bend, Indiana, now we are expanding to offer the CDFI Friendly model to cities and towns across the nation. The work once we make introductions is labor intensive, but it strengthens community fabric. The costs are significant but the return on investment is more significant, as we explain in the case studies that are part of this white paper

THE PROBLEM WE ARE SOLVING

The CDFI Friendly strategy took shape on a phone call in Spring 2017. Mayor John Hamilton of Bloomington, IN, called Mark Pinsky to ask for help in setting up a CDFI focused on small businesses in his city.

Bloomington is a healthy city of approximately 40,000 residents plus more than 40,000 students attending Indiana University.

Earlier in his career, Mayor Hamilton had started and led two highly successful CDFIs in Washington, DC—CityFirst Bank and CityFirst Enterprises. So he knew the value of CDFIs—community development financial institutions—and he knew their limits.

He won election as Mayor of his hometown in 2015. Bloomington was thriving in most ways. The spirit of that community was and is strong and optimistic, employment was healthy thanks to small businesses and the city's anchor corporations, The Cook Group and Indiana University (IU) Health.

On the other hand, home prices were growingmore than 10% per year and the average rent was the highest in the state. Storefront small businesses were doing well but they faced issues—not enough financing for startups, particularly tech companies emerging from the University, and a short supply of debt for retail businesses, particularly for the transfer of service businesses whose owners were looking to retire or sell. The commercial real estate market was good, but downtown Bloomington was feeling economic pressure as developers built student housing intended to serve out-of-state students who could afford higher rents than existing rental stock. The developers were speculating that in time the student housing would become market rental housing, and the speculation was driving up real estate costs. Crestmont, a small, largely African American area of single-family housing and public housing units, was the other side of Bloomington's tracks. Working families too often lived in attractive homes in need of maintenance.

Monroe County, Bloomington's home, was also showing some signs of economic distress. With approximately 140,000 residents, the county depended on Bloomington for most of its jobs, entertainment, and social life. Tina Peterson, President of the Community Foundation of Bloomington & Monroe County (CFBMC), was increasingly focused on meeting needs across the broader area of South Central Indiana, also known as the Indiana Uplands. Both the city and the region had unmet capital needs.

Mayor Hamilton had asked Peterson to partner with the City in starting a CDFI. CDFIs are private financial institutions that exist to find and finance opportunities outside the margins of mainstream institutions, including banks and governments. When Hamilton got started in Washington, DC, CDFIs were small, few in number, and sparsely distributed across the nation. Today, however, more than 1,100 CDFIs manage more than $220 billion and work in all 50 states serving urban, rural, and Native markets. (See a special "CDFIs 101" below for a more thorough explanation of CDFIs.)

Despite this growth, the CDFI industry has a "coverage" problem. Most CDFIs work in densely populated, large or mid-size cities. There are also many rural CDFIs that cover large areas. Far more places in the United States do not have access to CDFI financing and services than the fortunate communities that do have access. For example, 17 of the top 30 cities (populations 100,000-1 million people) measured by per capital CDFI financing between 2003 and 2018 are in the headquarter cities or primary service areas of established CDFIs. In those 17 cities, CDFI financing from 2003-2017 averaged $13,656 per person ($3.98 billion in sum), according to data provided by the CDFI Fund in the U.S. Department of the Treasury. By contrast, the 30 lowest ranked cities averaged $154 in CDFI financing per person. None of the lowest 30 are in CDFI headquartered cities or their primary markets.

What would happen if Bloomington started its own CDFI? Not as much as the City hoped, Pinsky told Hamilton on the phone. Surely not all he hoped.

Simply put, as we explained on the phone, Bloomington is not a big enough market to support a CDFI on its own. The community could set one up, of course, but it would face overwhelming challenges such as:

Cost. Starting a CDFI means a lot of development work plus startup funding and annual operating support for a multi-person organization (even small CDFIs require 4-5 people to manage the operating demands of bringing money in, lending, getting repaid, financial management, marketing, and management).

Time. It would like take a couple of years to put all the pieces together, write policies, capitalize the entity, and other basic elements.

Market Research. Though it is difficult for CDFIs entering unserved and underserved markets to find potential deals, the larger challenge is helping community stakeholders understand how CDFIs are different than banks, other lenders, and government. (See Appendix A: CDFIs 101) In fact, CDFIs have the financing expertise of banks and other mainstream lenders blended with the public purposes of government, but translating that into real terms in a community like Bloomington (or any of the thousands of small communities that have, at most, heard the term "CDFI") takes a major, iterative, and persistent education and organizing process.

Scope. A new Bloomington CDFI would need to learn to crawl, then, walk, then jog before it could run at 100%. It would likely take years, not months, to complete its first several transactions. In addition, it would have to choose the type of financing it believed most important (i.e., small business, commercial real estate, nonprofit facilities, rental housing, home ownership). The rest would have to wait. And if it were wrong about the need, it might not get a second chance.

Pipeline. As every financial institution must have to succeed, a Bloomington CDFI would need to cultivate a robust deal "pipeline"—an inventory of prospective investments. For a CDFI financing just one type of asset, that is particularly challenging. For a new CDFI, that is especially challenging, and for any CDFI in a small market, that is extremely challenging.

Risk. Most business startups struggle and many fail. Bloomington's possible CDFI faced all the usual operational, governance, management, financial, and strategic hurdles. In addition, it faced the potential risk that it would become an instrument of government because of the City's unique "CDFI Mayor" issue. It would need a strong non-government leader, a public commitment by Mayor Hamilton that he would not steer its work by a political compass, and an Executive Director able to develop their own, independent expertise. (See "The Bloomington CDFI Friendly Model" later in this white paper) For Hamilton, at the same time, this held substantial political risk. He had promised to bring a CDFI to Bloomington, and the community there is no different than most communities in wanting to have "one of their own."

Mayor Hamilton understood in advance all these risks. But he had committed City funding and Tina Peterson had matched that with the Community Foundation's resources to work through the challenges. That's why he was calling.

Would we help?

We would help, Pinsky said, because we trusted that he knew more about Bloomington than we did. "But it sounds like it might be a bad idea," Pinsky told him.

Mayors are resilient. Fortunately, Mayor Hamilton is resilient and creative. He explained that he had also considered funding a well-established CDFI from Chicago or elsewhere to open a lending office in Bloomington. Many successful CDFIs had done that well, and Hamilton mentioned IFF, a leading CDFI headquartered in Chicago. IFF had done an outstanding job of expanding its coverage by opening offices in multiple Midwest states using a disciplined model for market analysis and planning.
IFF is terrific, we noted, but you want a small business lender and that's not what IFF does. Besides, we added, Bloomington probably has opportunities that IFF will want to pursue but it does not seem likely to have enough deals to justify IFF opening an office in Bloomington. Like many CDFIs, IFF was very thoughtful about not committing to a place that would not work for it.

Silence.

What about this idea? we asked. We had been thinking about a third way which we called "CDFI Friendly" and Bloomington might be a place willing and able to explore it, particularly because it had the nation's only known "CDFI Mayor." We explained the rough idea—setting up a lean nonprofit entity to make it easier for multiple CDFIs to serve Bloomington so that the community could meet multiple financing needs with low overhead costs—go wide without having to go deep. In addition, Hamilton knew, CDFIs are creative, flexible, and experienced in outside-the-box financing solutions. The experience they would bring from hundreds or thousands of transactions they had completed over decades could be very valuable. What worked in Dubuque, IA, or Cincinnati, OH, would probably solve some problems in Bloomington.

I don't know, he said. Why don't we keep all three options on the table—a de novo startup CDFI, an outpost office by an established CDFI, and this CDFI Friendly thing?

"Why don't you come talk to us?"

CDFIs 101

CDFIs, or Community Development Financial Institutions, are private financial institutions that help create opportunities and benefits for people and places that are outside the financial mainstream.

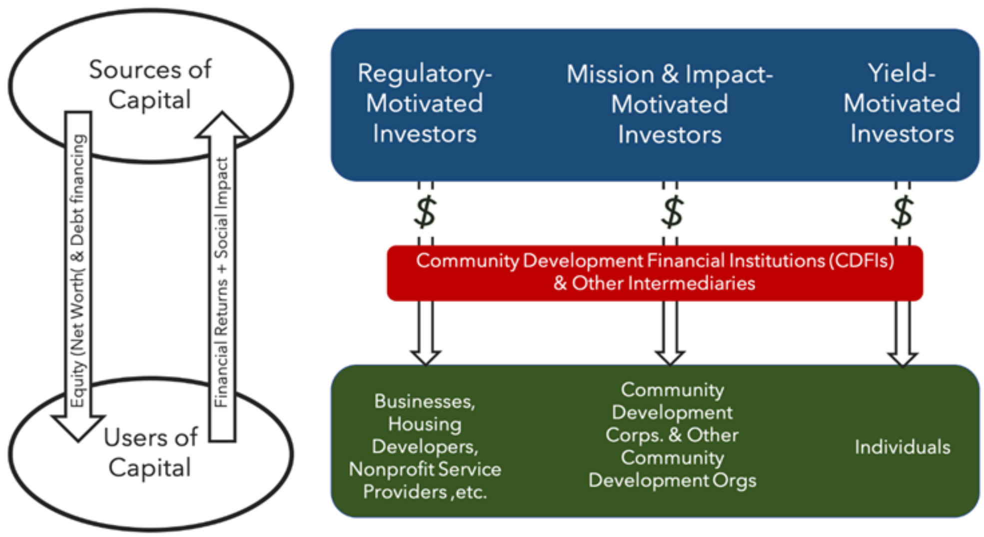
That means these individuals do not have access to the financial products—such as loans, savings accounts, and payment (or checking) accounts—that most people use routinely.

CDFIs are working today in all 50 states. They manage $222 billion of investor capital (as of January 2020). Unfortunately, they are not evenly distributed and so many of the nation's more than 19,000 communities have no access to CDFI financing and many more have access to some types of CDFI financing but not all types.

CDFIs exist because conventional financial institutions operate according to conservative standards and rules that make it hard for them to serve some markets and to make the profits that their investors expect. CDFIs, on the other hand, are profitable but not profit-maximizing, which means they are more flexible for their customers. Unlike CDFIS, conventional banks, credit unions, and other types of financial institutions are slow to try lending to ethnic communities they are unfamiliar with or to develop products customized to fit new customers. There are many reasons for the differences. Many CDFIs required by their investors—many of whom historically are mission-motivated or impact investors, including faith-based investors—to seek out customers who have long faced obstacles to get financial services.

CDFIs are efficient organizers of money that deliver public good & private gains.

Thinking of CDFIs as "intermediaries" is helpful to understanding what they do and, as we will discuss later, the value that CDFI Friendly strategies add.



CDFIs bring in capital (both equity and debt financing) from investors with three main motivations: Regulatory (particularly banks); Mission (faith-based, impact, and socially responsible investors); and Yield (like conventional investors seeking maximum returns). CDFIs pool the capital and use it to finance community priorities ranging from small businesses led by entre-

CDFIs are financial intermediaries and also information, social, and cultural intermediaries. They speak both "finance" and "community organizing" languages, often translating between sources and users of financing. At the same time, they have one foot in conventional market thinking and the other in government interventions, so they work in both the

Case studies of CDFI Friendly Bloomington and CDFI Friendly South Bend are are included with this white paper. In addition, they are available at www.cdfifriendlyamerica.com. The CDFI Bloomington paper includes a March 2020 update on its progress.

private and public sectors of the economy. Finally, they work across racial, ethnic, and cultural divides. This is useful always and most of all when CDFIs are nurturing emerging markets.

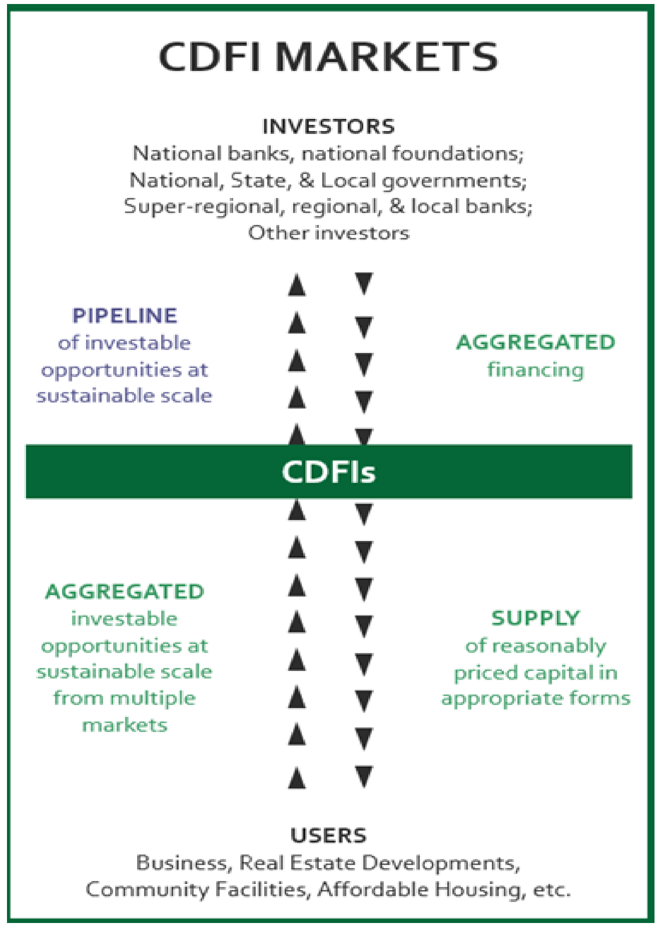
To that end, CDFIs reporting to the CDFI Fund from 2000 through 2018 reported impressive results—more than $62 billion loaned, almost 547,000 permanent jobs created, more than 1 million education and childcare slots created, and almost 650,000 housing units produced. On the business side, the CDFIs financed more than 270,000 small and micro-businesses.

As a result, mainstream institutions—particularly conventional banks and the federal government—have embraced CDFIs. Virtually all of the top 10 banks by assets in the United States are active investors and supporters because CDFIs help them serve markets they otherwise would not reach. In addition, they are subject to a law known as the Community Reinvestment Act (CRA) that requires them to lend responsibly to everyone in their markets including those outside the economic mainstream. CDFIs serve a very useful "intermediary" function by bringing the sources and uses of capital together.

As the joke goes, CDFIs "sound great in practice but will never work in theory" because they have succeeded in ways and at a scale that standard economic thinking says they should not. Over more than 30 years making loans totaling more than $100 billion in nonconforming markets, CDFIs have a performance track record about as good as mainstream lenders working in conventional markets (the difference in losses is less than 1%). They make a real difference where they work.

CDFIs also enjoy strong bipartisan support at all levels of government. In Washington, DC, CDFIs are considered the rare exception to the divide between Republicans and Democrats. At the state level, more than a dozen states have enacted laws to support CDFIs and most of them were created by Republican governors. At the local level, CDFIs are working successfully without regard to partisan differences.

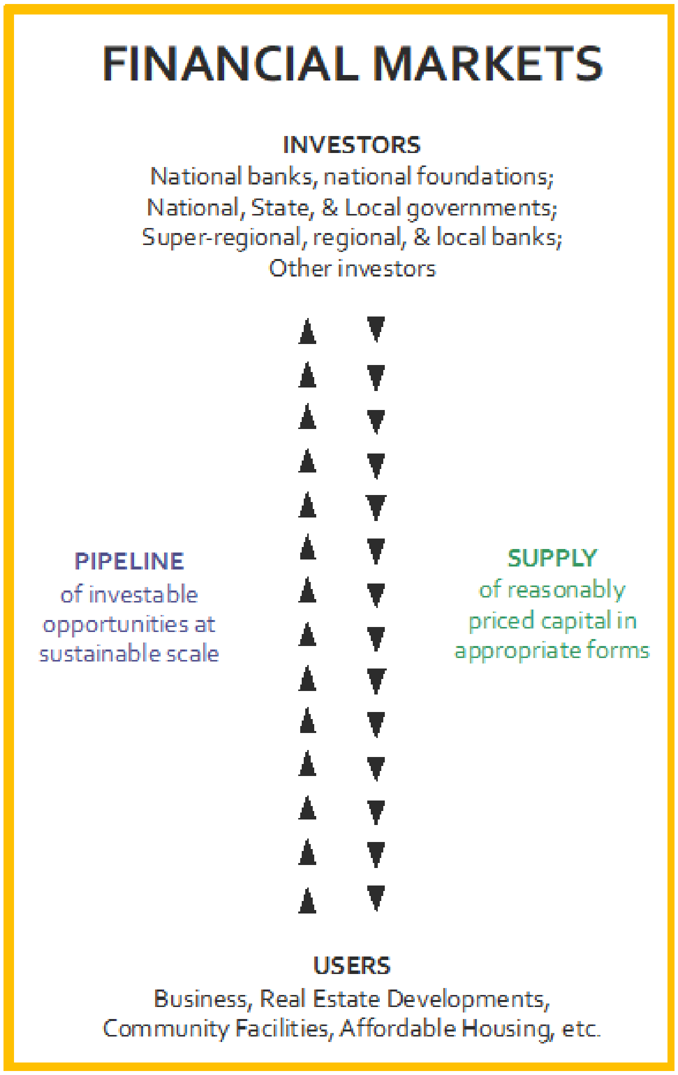
Part of their strength is their ability to bring people from very different background together. In the earliest days of the CDFI movement, visionary leader Chuck Matthei explained how CDFIs do this:



This diagram illustrates another way CDFIs work between investors and users of capital. In a benign way, CDFIs disrupt how markets work and seem to fly in the face of conventional economic ideas. In an ideal market, CDFIs would not be necessary.

> *We are trying to forge a partnership, in some measure, between those who advocate very fundamental social change and those who are calling for the private sector to mend the holes in the social safety net. These are groups that don't normally pass one another's doorways. They don't meet at the office. But they are meeting through the operations of our [CDFIs], and we've got to forge that relationship into an effective alliance.*

Because they bridge ideological and partisan gaps, CDFIs are effective in unique ways:



This diagram illustrates the classicial theory of how financial markets works. One of the things CDFIs have helped economists understand is that markets need many forms of intermediation to work efficiently and effectively.

They bring together bankers and community organizers, people of faith and government officials, housing advocates and small business people, low income residents and the 1%, all focused on a common goal. As a result, they open the door to innovative, unusual solutions to longstanding problems. Because all sides share a stake in the work, the resources to draw on are both broader and deeper.

They demonstrate to skeptics on all sides of a community and economic development issue that the combination of seemingly disparate approaches can work best. Government funding gets applied in new ways., which often makes it stretch further. Private financing participates in deals that it had avoided in the past. Community activists find themselves talking about finance and financial professionals argue for equitable outcomes.

They tend to lead to bipartisan and nonpartisan efforts.

They introduce long-term solutions by causing structural and systemic changes in how communities think about and respond to challenges and opportunities. An investor in South Bend said to us recently that becoming a CDFI Friendly Community is going to “reorganize” how things get done in the city.

Through our decades of experience working at and with CDFIs, we have seen many communities start out skeptical but quickly realize that things are possible without CDFIs that they had never imagined.

CDFI FRIENDLY COMMUNITIES 101

Making "impossible" things possible is what is starting to happen in the nation's first two CDFI Friendly communities– Bloomington and South Bend, Indiana.

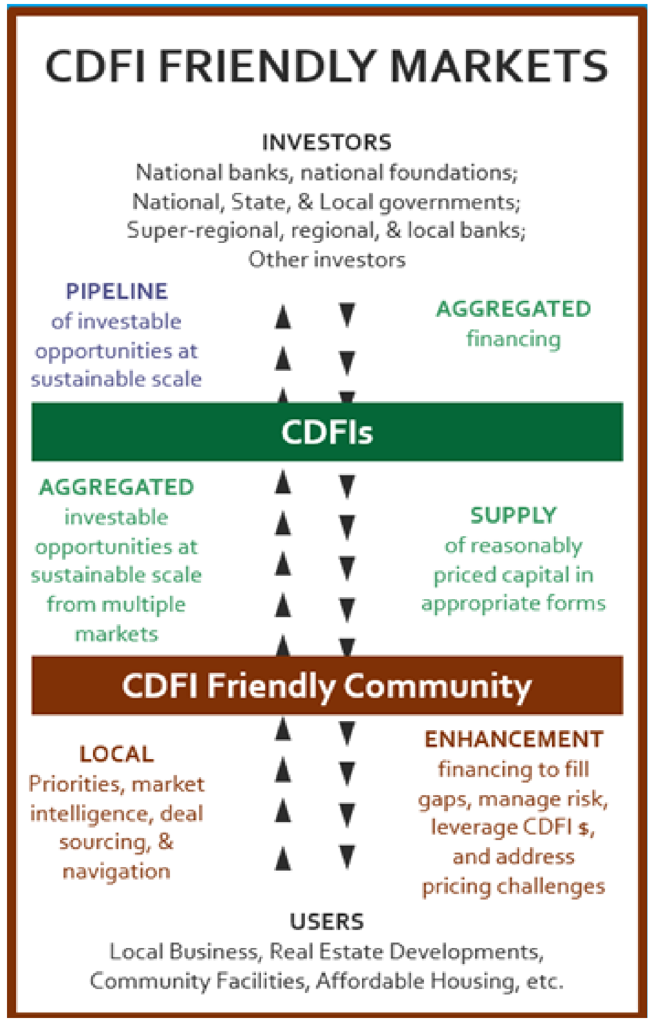
Our goal is to make it happen in many more small cities and towns over the next decade.

As Bloomington Mayor John Hamilton recently told the US Conference of Mayors, "If you're a mayor or a council member of local advocate, you need to understand and embrace the CDFI Friendly tool because it can transform lives for people in your community."

Both cities brought together appropriate cross-sections of their communities– including public officials, community organizers and activists, residents, civic leaders, bankers, philanthropic leaders, academics, and others– with CDFI industry experts. In the CDFI Friendly model, the role of these working groups is to ensure a 360-degree perspective on the opportunities, challenges, priorities, and principles through a four-step process first developed for Bloomington and detailed below. Both communities agreed that the CDFI Friendly model is likely to produce substantial gains for local businesses, residents in affordable housing, nonprofits, commercial real estate developers, and their respective local and regional economies.

In Bloomington, CDFI Friendly Bloomington has completed one $5 million transaction and is working on several more toward a $50 million, 5-year goal for new CDFI financing. South Bend will formally set up its new entity in February 2020 with a goal of $17 million in new CDFI financing over 3 years. Those two cities saw much less financing in the most recent 15-year count prepared by The CDFI Fund--$2.8 million ¬ total for Bloomington and $3.6 million for South Bend.

Both CDFI Friendly entities were created as 501.c.3 nonprofit entities to connect local borrowers with a range of CDFI lenders. They work to identify financing opportunities outside the economic mainstream and draw CDFI industry attention to their respective geographies.
CDFI Friendly Bloomington & South Bend also share a structure of 1-1.5 staff whose primary purpose is to serve as a matchmaker between CDFIs and local financial needs. Each entity also controls a Capital Enhancement Fund that can be deployed alongside



Much as CDFIs intermediate between financial markets and users of capital, CDFI Friendly strategies intermediate between CDFIs and users of capital. In this role, a CDFI Friendly strategy gives CDFIs access to a network of new markets that they otherwise would not know about or be able to serve.

The CDFI Friendly model makes it easier and less expensive for CDFIs to learn about, evaluate, and acquire assets. At the same time, the model gives CDFI Friendly communities access to multiple CDFIs serving the full range of financing gaps– such as business, housing & nonprofit real estate.

CDFI lenders in targeted deals approved by the Board.

A combination of financial institutions, philanthropic entities, and government contributed to each CDFI Friendly entity. This funding is used for operating grants, as well as equity and debt for the Capital Enhancement Funds.

There are also notable differences between the two organizations, however:

Bloomington is focused on affordable multifamily and single-family housing, with a focus on supportive and transitional housing. The Bloomington housing market has become more expensive due to rising costs of apartments for students at Indiana University.

South Bend is focused on small business financing, particularly for entrepreneurs of color, and affordable home ownership. In South Bend, a large number of minority entrepreneurs are missing opportunities due to a lack of available, affordable business financing. The housing market there has a glut of homes that need significant rehabilitation and are hard to finance.

Smaller cities and towns struggle to attract CDFI financing for five main reasons:

Demand for CDFI financing can be diverse and wide ranging but it is not deep enough to sustain a full time CDFI or CDFI outpost of a large organization.

Launching a new CDFI is expensive and time-consuming with the promise of limited results.

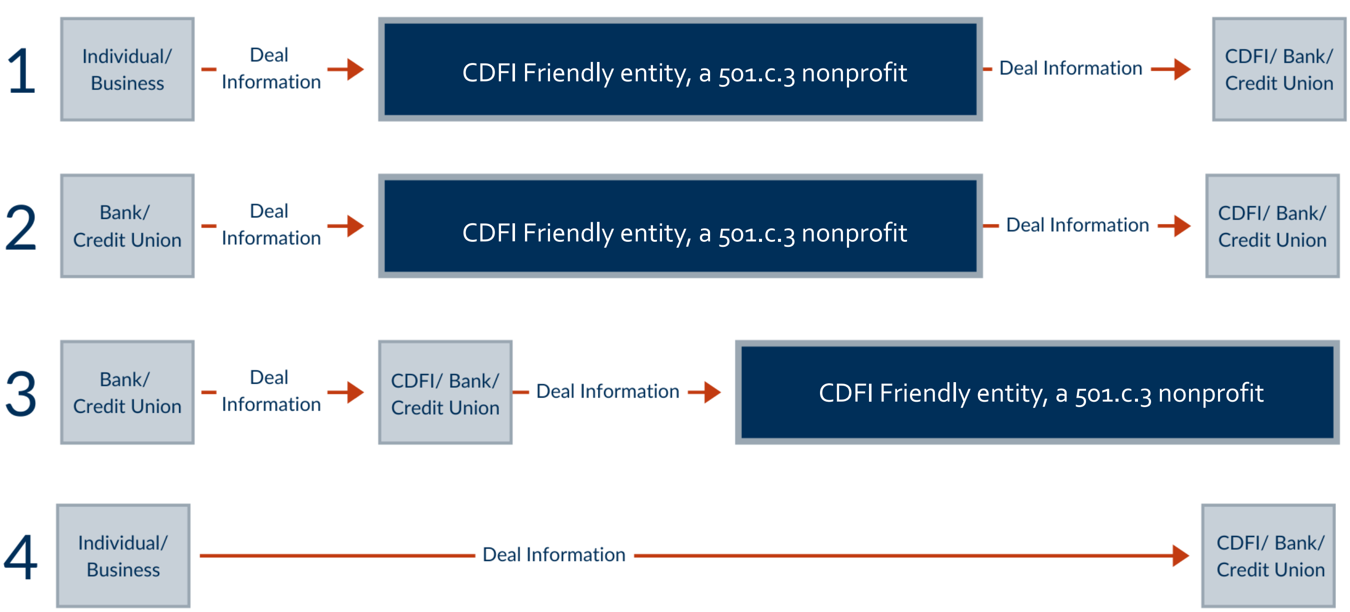
Entry Costs of acquiring and developing deals tend to be high, particularly when potential borrowers and customers have little or no understanding of how CDFIs work and why they add value.

Market Presence is difficult and costly for a CDFI to maintain when it is headquartered elsewhere and works in many different places.

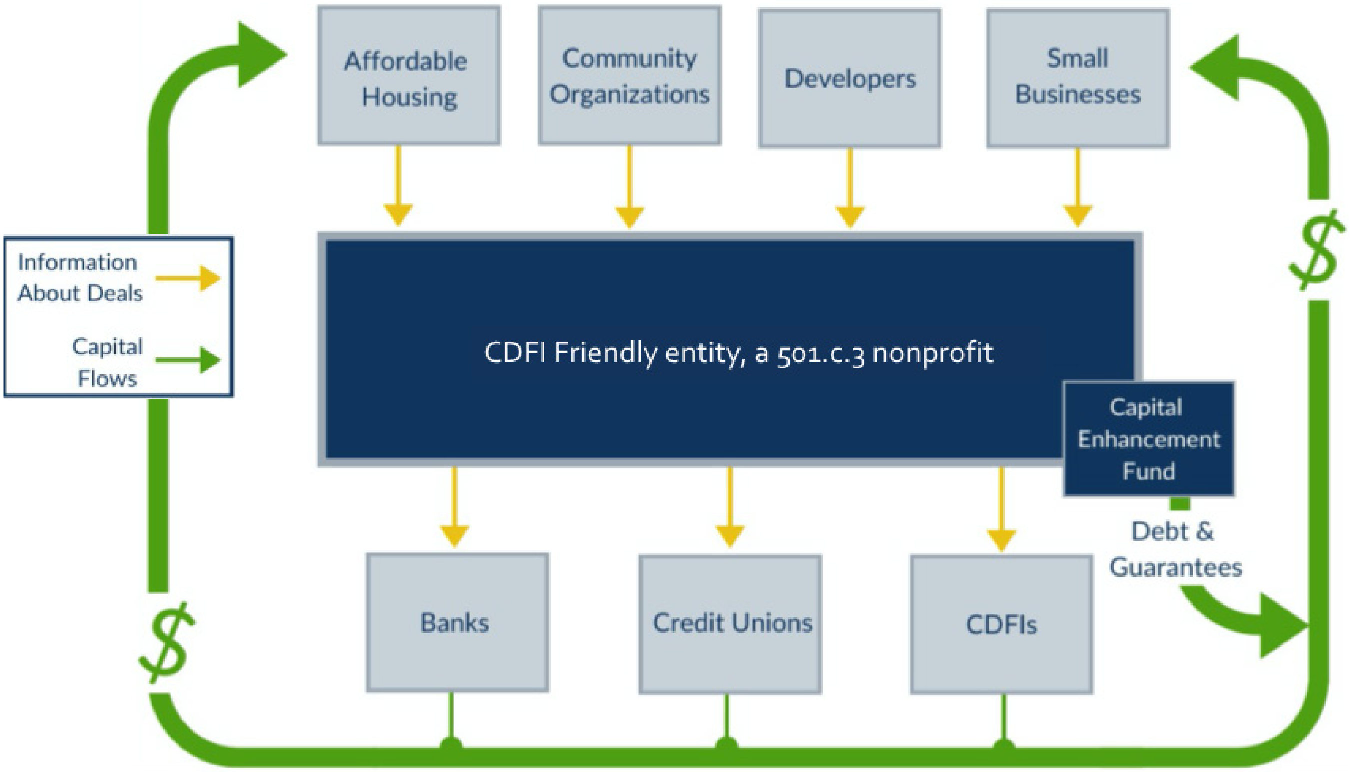
Funding and Investment might be inconsistent and/or unreliable.

In our model, a participating CDFI Friendly Community creates a small nonprofit organization ("CDFI Friendly Intermediary") that does two things:

A CDFI Friendly Community Has Many Sources for Deals



CDFI Friendly Business Model



1. It organizes the market, by identifying and matching demand for financing with the supply of capital from CDFIs. In the process, it serves as an information intermediary. It meets with local entrepreneurs, nonprofits, developers, homeowners, and others to let them know about possible CDFI financing. And it works with CDFIs across its region, its state, or the nation to match them to potential customers.

In practice, CDFI Friendly strategies organize demand for CDFI financing through multiple channels.

2. It enhances the market and reduces risk through an independent revolving loan fund that finances alongside CDFIs when the CDFIs are providing financing. Capitalized by area banks, local government, foundations, local corporations, and others, these enhancement funds can offer loans and guarantees on a pari passu basis. These funds serve three purposes:

a. They can bring additional flexible financing to a transaction when the CDFI is unable to finance it alone.

b. They ensure that a local entity is in the same risk position as the distant CDFI and so brings equal attention to monitoring assets. This "skin-in-the-game" model makes it possible for CDFIs to properly oversee its portfolio without incurring high costs due to the distance.

c. They give the community-controlled Boards of CDFI Friendly Intermediaries a measure of influence to advance the community's priorities. The Board can set priorities for use of the enhancement fund so that, for example, it participates in affordable housing deals but not other types. This is vital because local residents want to know that the distant CDFI is working with them and not against them.

Demand for financing can reach CDFIs (and others) in at least five ways under the CDFI Friendly approach, as shown on the preceding page.

We expect that over time CDFIs will build their own networks for deals in communities like Bloomington and South Bend and that the role of the CDFI Friendly Intermediaries will remain lean, generally no more than two (2) full-time equivalents. In addition, with experience the Intermediaries' staffs will be able to spend time marketing their communities to more CDFIs, increasing the supply of financing types and options to their small cities and towns. While the Intermediaries will require ongoing operating grant support, the benefits to the community (measured in part by the amount of new CDFI financing per year) will grow.

The CDFI industry has learned over the past 30 years an unusual truth: CDFI financing usually generates its own demand. What that means is that in communities where flexible, affordable financing has been absent or rare, many potential entrepreneurs and developers are discouraged.As a result, they have to be reminded that financing is available. When they learn, and when over time a community learns, CDFI financing expands and grows.

Finally, CDFIs are eager to address financing gaps and most are equally happy to help potential borrowers get financing from other sources such as banks and credit unions since that allow the CDFIs to do more with their finite capital for financing.

THE NATIONAL POTENTIAL

Through our work in Bloomington and South Bend, together with our decades of working in and around the CDFI industry (see Biographies below), we developed a four-phase work plan for helping small cities and towns attract and use CDFI financing.

It allows interested communities to learn about CDFIs and the value they could bring, assess their financing gaps and identify new opportunities, explore options for meeting those gaps, build a good strategy for success, and stand up the entity.

CDFI Friendly America is the only provider of these services. We want to work with communities that see potential benefits from new CDFI financing. While we think this strategy works best for small cities and towns ranging from 50,000 people to 250,000 people, we know that smaller and larger communities can benefit, as well. Smaller communities might be part of regional strategies. Larger communities might realize that they have some types of CDFI financing (such as small business financing) but would benefit from other types (such as community facilities financing).

Our approach involves broad community participation. We believe there are five factors that are necessary for success:

An understanding among the stakeholders that important deals are not getting financed and important opportunities are being missed in their community because of a lack of flexible, affordable mission-driven capital.

A shared openness to innovations based on CDFI experience. CDFIs tend to challenge conventional thinking and bring new options and solutions. Their experience is every bit as important as their money.

A commitment to and, ideally, a history of public-private cooperation and collaboration.

Funding and support for the work to become CDFI Friendly, a process that can take 1218 months with options to stop along the way.

Municipal support at a high level.

Of course, we need to interest and engage at least 4-6 CDFIs willing to work with your com-munity to develop a supply of prospective deals. That is part of our work.

HOW WE HELP COMMUNITIES BE CDFI FRIENDLY

	ASSESS	ORGANIZE	PLAN	IMPLEMENT
PURPOSE	**CDFI Friendly America** conducts an assessment and makes recommendations about utilizing CDFI financing.	**CDFI Friendly America** manages an in-depth organizing and education effort, identifies and recruits local leaders, brings in CDFIs and national investors and funders, runs regular meetings, and organizes and directs a concluding public meeting for decision-making.	**CDFI Friendly America** conducts and directs research, interviews key players and leaders, proposes financing strategies, tests strategies with CDFIs and outside investors and funders, prepares financial projections, and finalizes your business plan.	**CDFI Friendly America helps** start the organizing entity, advises the founding Board of Directors, helps hire an Executive Director, recruits and aligns investors and funders, and attracts CDFIs to ensure a smooth and steady start-up.
PARTNERS	Works with a lead organization to convene participants and 15-20 key local leaders from philanthropy, community, government, business, and financial sectors.	Works with an inclusive mix of local leaders, especially those groups identified in the assessment. Identifies CDFIs that could be active participants, national and regional prospective investors, and external policy leaders.	Works with emerging leaders from the organizing phase, potential funders and investors, public officials, and CDFIs.	Works with the founding Board of Directors, an Executive Director, investors, funders, CDFIs, and local developers and entrepreneurs.
REQUIREMENTS	Requires onsite meetings with key community leaders	Requires market research, education about CDFI roles, identification of potential financing opportunities, and a public meeting.	Requires deep market research, vetting of financing gaps, identification of potential CDFI partners, analysis of local capacity, and development of pro forma financials.	Requires establishment of a CDFI Friendly entity, including Board of Directors, Executive Director, operational and financing policies, and initial financing.
RESULTS	Results in a leadership decision whether to Organize.	Results in a broad community decision whether to continue to Plan.	Results in an actionable business plan to Implement.	Results in a fully operational, locally run strategy that attracts substantial new CDFI financing.

CDFI Friendly America provides services in these four discrete stages, each with a community-led decision to continue or stop. For more complete discussion of our work, contact us at info@cdfifriendlyamerica.com.

THE NATIONAL CDFI FRIENDLY MARKET

CDFIs today manage more than $222 billion, according to the CDFI Fund in the U.S. Department of the Treasury.

They work in urban, rural, and Native communities in all 50 states. Yet the need for them is far beyond their current capacity to serve. There are two challenges.

First, geography. There are more than 19,000 communities of many types and all sizes in the United States, according to the U.S. Census Bureau. Several thousand of those places are served by CDFIs, we believe, leaving many thousands that are not. Virtually all of those needing CDFI financing are too small to justify or support a free-standing CDFI.

Second, coverage. Many, if not most, communities where CDFIs work are only partially served, or covered, by financing products that match financing gaps. In Philadelphia, PA, for example, there is strong CDFI financing for affordable housing, commercial real estate, community facilities, and other sectors. It does not have small business financing, and other CDFIs do serve some but far from all of the market. Community leaders have identified the small business credit gap as a critical issue.

ABOUT CDFI FRIENDLY AMERICA

CDFI Friendly America is on a mission to bring the $222 billion CDFI industry to underserved communities in towns and small cities across the nation.

CDFI Friendly America is offering its assistance across the nation. What began with a phone call from Bloomington Mayor John Hamilton is becoming a new strategy to expand the CDFI industry's reach by lowering the barriers to entry in smaller cities and towns. Our vision is a national network of CDFI Friendly Communities working in step with CDFIs to bring equitable opportunities, sustainable development, and economic inclusion to underserved and under-resourced people and places.

Through its trial period from 2017-2019, CDFI Friendly America proved the viability of its approach and uncovered the potential of its model. Beyond working in two Indiana cities, CDFI Friendly America has actively worked with five additional communities; at the time of this writing, two chose not to proceed because they believed they were not ready, one is actively exploring the option, and one chose to work with the CDFIs already in place. We consider it a success when a community makes any of those choices.

In addition, CDFI Friendly America has discussed the model with leading investors in CDFIs, prominent funders of community development, and hundreds of CDFIs. To a person, they supported us going forward, and many expressed interest in working with CDFI Friendly America. Since CDFI Friendly Bloomington launched in December 2019, support from industry leaders including Bank of America and The CDFI Fund has increased.

CDFI Friendly America knows that as the number of CDFI Friendly Communities increase it can help prospective partners—including CDFIs and investors—gauge the strength of individual communities and decide whether and how to get involved. Not all CDFI Friendly Communities—and not all CDFIs—are the same; some perform better than others. For that reason, CDFI Friendly America will provide its certi-

WHO WE ARE

CDFI Friendly America is uniquely qualified to provide services and certification.

CDFI Friendly America is led by two experts in CDFIs with more than 60 years of industry experience and expertise. CDFI Friendly America's Founding Partners **Mark A. Pinsky** and **Adina Abramowitz** have been helping CDFIs extend their coverage since the 1980s through strategic leadership, policy work, training and consulting, and innovation. Their contributions include creation of a widely used ratings system for CDFI investors, innovative financial instruments such as the Equity Equivalent, industry strategies such as "Grow, Change, or Die," and creative expansion of industry learning events.

We are strategic advisors with more than 60 years of combined experience leading and working in and around the CDFI industry. We have seen—and contributed to—its remarkable growth, its outstanding performance, and its unparalleled track record of high impact in housing, small business, and nonprofit real estate.

Mark A. Pinsky developed the CDFI Friendly model and is Founding Partner of CDFI Friendly America. He is a noted strategist, author, and advisor on public purpose finance. In 2019, he co-authored ***Organized Money*** with Keith Mestrich, CEO of Amalgamated Bank. (The New Press). He is a leader in the CDFI industry.

Adina Abramowitz is the Managing Partner of CDFI Friendly America. She is one of the nation's leading consultants for CDFIs based on her experience as CEO of a small business CDFI and her formative role in industry capacity building. She founded Consulting for Change in January 2006 to provide services supporting strategic and operational planning, market analysis and product development, organizational assessment, leadership development, executive coaching, and organizational change in nonprofit organizations.

We work with a growing team of skilled leaders who are expert in CDFIs and in the new CDFI Friendly model. We train our team to work with communities seeking to become CDFI Friendly and partner with them to help our communities

THE BLOOMINGTON PROJECT

A NEW APPROACH TO EXPANDING CDFI COVERAGE IN SMALLER MARKETS

ORIGINALLY PUBLISHED DECEMBER 2017
UPDATED MARCH 2020

CDFI
FRIENDLY
AMERICA

SUMMARY

In 2016 and 2017, community leaders in Bloomington, Indiana, saw the need for financing for a range of purposes in forms more flexible, risk-tolerant, and creative than seemed available from banks and other conventional sources. In particular, they saw small businesses, including start-ups, commercial real estate projects, and affordable housing deals stalled by limited access to financing.

Bloomington Mayor John Hamilton, who had worked for much of his career as an executive or board member of a community development financial institution, or CDFI, suggested that a CDFI could help meet the community's needs. Bloomington is a city of almost 85,000 people, approximately half of whom are students at Indiana University. The City is the economic center of Monroe County and of the South Central Indiana Region, with a total regional population of about 400,000.

A Bloomington CDFI Working Group initially explored two options:

- Starting a new CDFI serving Bloomington and possibly the region (the de novo option), and
- Recruiting a CDFI working elsewhere to open an office in Bloomington (the partnership option).

The Bloomington Urban Enterprise Association (BUEA), a quasi-governmental economic development group, and the Community Foundation of Bloomington & Monroe County (the Foundation) each pledged $75,000 (a total of $150,000) to support exploration and development of a CDFI.

The Working Group asked Five/Four Advisors, with extensive experience in the CDFI industry, to help.

Discussions centered on the size of the Bloomington and regional markets, the range of financing opportunities and needs, the likely costs of each option over a 3-5 year period (including support for operations and capital for financing), the time it would take for a new CDFI to get up to speed, and the challenge of finding a single partner CDFI that could meet the range of financing needs.

The Working Group added to its options the possibility that it could use its resources and civic capacity more efficiently to reach out to, encourage, and incent CDFIs nearby and across a broader geography to finance opportunities in Bloomington. That idea came to be known as the "CDFI Friendly City" option.

Follow-on conversations with multiple CDFIs found strong interest in the CDFI Friendly City option. Over the past 6-8 years, many CDFIs have sought to expand their geographic and market coverage. They were acting in response to perceived demand where no or few CDFIs were working, what was known as gaps in coverage. One constraint for the CDFIs is the high overhead costs of operating in multiple cities or locations.

Through a series of discussions, the Bloomington community and Five/Four Advisors developed both a model for the CDFI Friendly City approach and a process for establishing one.

In January 2018, Bloomington's CDFI Working Group opted to officially become a CDFI Friendly City while continuing to explore the potential for a standalone CDFI in the future.

> *This White Paper describes the approach Bloomington took, key lessons it learned, and the criteria that emerged for classifying a place as a CDFI Friendly City. It also suggests the potential for the model to benefit others of the thousands of cities and towns in the United States with populations less than 100,000, as well as related rural areas.*

It concludes that the model developed in Bloomington, replicated and improved over time by other places, could:

- Help thousands of communities and millions of people gain access to valuable and elusive financing for small business, commercial real estate and housing;

- Facilitate and significantly lower the costs for CDFIs to expand their coverage and increase their financing activity into new, underserved CDFI markets;

- Give CDFI investors expanding opportunities and attract new investors who have previously lacked knowledge of and opportunities to invest in CDFIs; and

- Leverage in new and productive ways the tight resources that governments in most cities and communities must manage prudently and efficiently.

As Bloomington Mayor Hamilton said during his community's process, "Every city is trying to invest its public dollars in the best ways possible, and there are some things we, as smaller communities, are never going to achieve on our own. CDFIs are great at some of those things. It only makes sense to find the best possible ways to get them working together."

The Bloomington Process

Assessing Community Understanding & Interest

Leaders in Bloomington convened a series of small local meetings in August 2017 involving more than 20 local representatives to discuss local demand and need for CDFI financing. Each meeting began with a brief explanation of what CDFIs do and how they do it. A critical challenge in Bloomington was improving understanding of CDFIs so that local business, civic, and community leaders could assess whether they would benefit the local and regional market.

The CDFI Working Group had started to raise awareness of CDFIs earlier in 2017, and the August discussions were the first of two steps to assess whether CDFI financing could help the local market and whether there is sufficient demand in the local market to support one, two, or three of the options the Working Group was considering.

The participants in the August conversations consistently expressed a high level of interest in what a CDFI strategy might do for the city, its residents, and the surrounding region. Five/Four Advisors analysis of those meetings included a series of key takeaways.

Key Takeaways from Bloomington Conversations

Interest was High.

Across almost all conversations, people volunteered support for further work toward a CDFI strategy. This was consistent among financial institutions, funders, and investors; affordable housing and community service advocates; nonprofit leaders, educators; business owners and leaders; and public officials.

Knowledge of CDFIs was Low

Due to lack of exposure and experience, the CDFI model was a vague concept to most of the people. Their questions were consistently on point and insightful, however, reflecting what seemed to be genuine desire to figure out if CDFIs could strengthen the fabric of the local community and the economy, particularly the emerging tech economy.

Two factors stood out during the conversations:

- *First, it is difficult for people who have not seen CDFIs in action to understand the power of the model to stimulate innovation, creative solutions, and change.* CDFIs believe that supply (of flexible, patient capital driving innovation derived in part through the national CDFI network) creates its own demand for projects that might not have otherwise seemed worth considering and for approaches that include low-income, low-wealth people in the community's economic progress.

- *Second, as in many cities and places, there seems to be little focus on strategies that prioritize creating opportunities for underserved people and communities*, save for traditional government approaches and nonprofits. CDFIs work to create inclusive prosperity.

The community is rich in talent and related expertise and experience.

A CDFI or a CDFI strategy would draw on a deep pool of people with the range of skill sets that are key to success—finance, economic development, nonprofits, economic and demographic inclusion, entrepreneurship, real estate, and more. The presence of Indiana University seemed to make a significant difference in the pool of talent to draw on. Several people focused on governance from a range of perspectives; Bloomington's community would provide the expertise and experience necessary to effective CDFI governance.

Bloomington seems to have a small but active advocacy community on behalf of typical CDFI populations—low-income, low-wealth, and other historically underserved communities. The community draws on collaborations among financial institutions, business leaders, and community leaders, as well as Mayor Hamilton's experience starting and leading a CDFI in a distressed and racially diverse community in Washington, DC.

Demand for CDFI Financing Exists, though the scale of the demand was not clear from the Bloomington meetings. There appeared to be demand for affordable housing finance, small business finance, and commercial real estate finance. The scale and scope of the demand was not clear, however, absent CDFIs actively assessing the financial viability and mission potential of each project.

The type, size, timing, and nature of demand is fundamental to answering the set of questions the community faces; for example,

- Is there sufficient demand to support a de novo CDFI?
- Is the demand in a particular asset class (e.g., affordable housing) that would guide the community's CDFI strategy?
- Can the community support a multi-asset class CDFI, i.e., one that directs support both to affordable housing and to small business?
- How can we compile an inventory of potential CDFI type projects that would help the Bloomington community, as well as potential partner CDFIs and potential CDFI investors, assess the opportunity?

The community seemed eager to support action. The risk of taking next steps was low and the potential upside was high. Many people asked about next steps and everyone seemed in favor of proceeding. The next steps needed to get into the details to inform understanding about CDFIs and the community's decisions about how to proceed.

Local banks in and around Bloomington expressed interest in bringing CDFIs to Bloomington, and wanted a better understanding of how CDFIs supplement and complement ongoing bank lending and services. Local banks were active members of the Bloomington CDFI Working Group.

Assessing CDFI Interest

Based on community's clear interest in bringing CDFIs to the region, community, the Bloomington CDFI Working Group was eager to learn more about CDFIs and the level of their potential interest in working with and in Bloomington and South Central Indiana. With guidance from Five/Four Advisors, Working Group representatives met in Washington, DC, with nine (9) CDFI industry leaders, including CDFI executives, CDFI investors, and CDFI funders. Each CDFI was selected for a specific reason relative to Bloomington—their markets, their asset focus (e.g., small business), their strategies, and/or their size (by assets and lending volumes).

The level of interest among most CDFIs for working in and around Bloomington was high, and the broader question of how CDFIs could do more in smaller markets like Bloomington was notable among all CDFI participants. Many CDFIs are eager to expand their markets and to reach markets that are difficult for them to serve; the economics of the CDFI business make it difficult to support operational costs in places where the need is real but demand is low.

This runs parallel to the challenges many mainstream banks have serving smaller markets. For that reason, banks are interested in helping CDFIs expand their coverage because CDFIs can better serve smaller markets than mainstream banks can.

Most of the CDFI industry participants in the Washington, DC, meetings enthusiastically agreed to travel to Bloomington for a meeting focused on the CDFI Friendly City model. All endorsed the value of the meeting.

Engagement: Joining Together

On Wednesday, November 8, 2017, the Bloomington community hosted a meeting of approximately 50 local representatives and CDFI industry leaders with two goals:

- To help the Bloomington CDFI Working Group decide its CDFI strategy, and
- To explore in depth the issues related to increasing CDFI financing in smaller markets and small cities including rural areas

The prior evening, CDFI visitors took a 90-minute tour of the City, including looks at some of the potential financing opportunities the Working Group had compiled (see Appendix F for a list and brief write-ups of the opportunities).

The meeting was structured to increase bilateral understanding and to culminate in concrete discussions about opportunities, issues, challenges, and next steps. (See Appendix E for a copy of the agenda.)

Implementation

The November 8 convening in Bloomington generated bilateral interest among CDFIs and Bloomington entities in most, if not all, the opportunities the Bloomington community had summarized for the CDFIs. Several are in negotiations and at least one seems likely to close in early 2018.

Based on the work to date as well as the CDFI response to opportunities in Bloomington, the CDFI Working Group chose in January 2018 to implement a CDFI Friendly City strategy immediately and to also consider a de novo small business CDFI as part of that strategy. The Community Foundation of Bloomington & Monroe County and the Bloomington Urban Enterprise Association, the funders, agreed to allocate unused funding to supportimplementation.

The Community Foundation agreed to serve as fiscal sponsor for the start-up enterprise and its Board of Directors authorized creation of a fund to receive, hold, and disburse operating funds. It is anticipated that a new entity would eventually assume the role played by the Community Foundation the Community Foundation is not intending to be the operating parent indefinitely for the effort. In the interim, the oversight board for the operating entity comprises Members of the CDFI Working Group in Bloomington.

The Community Foundation also began developing a "financing" fund to hold and allocate money from the City, from private philanthropies, and/or from banks to financing opportunities in and around Bloomington alongside CDFIs. The form of those investments—i.e., credit enhancements, interest rate writedowns, direct investments—will be resolved based on market conditions. The Community Foundation drew from the expertise of the Indiana Philanthropy Alliance and the John D. and Catherine T. MacArthur Foundation, a leader in community development and CDFI financing.

The Community Foundation expects the financing fund to transfer as soon as possible to the new operating entity that assumes responsibility for the effort in Bloomington.

The Community Foundation extended its contract with Five/Four Advisors to assist with implementation. The goal is for the strategy to be locally operated and managed, however, and so the Community Foundation expects to transfer implementation to a local staff person in 2018.

In 2018-2019, it is expected that multiple CDFI transactions will close in Bloomington. Additional goals for the year included the development of a multiyear business plan for the new effort, capitalization of a financing fund, securing additional funds for ongoing operations, assessing whether to create a de novo small business CDFI, making adjustments in the strategy based on experience, hiring local management, and transferring knowledge and expertise to the local manager.

The Community Foundation and Mayor Hamilton announced on February 28, 2018, that Bloomington has become a CDFI Friendly City.

What is a CDFI Friendly City?

Like most ideas, a CDFI Friendly City is easy to recognize but harder to define. For CDFI Friendly Cities™ to be a useful concept, it needs to have a meaningful set of criteria and accountability measures that it meets. In a practical sense, it is a civic or public effort that is using its resources and authority to facilitate CDFI financing that benefits under-resourced and/or underserved populations and communities. Some large U.S. cities with longstanding and active CDFI networks already facilitate most, if not all, the functions and characteristics that emerged in Bloomington as key to a CDFI Friendly City. Those comprise:

a. Completion of an evaluation and planning process similar to that used by Bloomington and delivered (for quality control purposes) by an entity like Five/Four Advisors or another designated partner.

b. Skin in the game—local public and private financing or credit enhancement, likely combined with other financing from outside the city, that facilitates and/or encourages CDFI financing;

c. Creation or designation of an operating entity, either an independent nonprofit that can easily receive contributions or a functional unit housed within a private, nonprofit community organization.

d. Local governance—a governing body comprising private and public representatives, possibly including community, business, government, philanthropic, financing, and possibly other affiliations. A majority of the Board should represent local, not government, entities. The governing body is the means for local control over priorities for seeking financing, particularly through decision-making authority over the financing work.

e. A strategy statement available to the public that includes production goals and a means of accountability to the strategy and results.

f. Specific written goals that ensure a means of accountability going forward to ensure that the strategy is producing results in line with the public promises it makes by becoming a CDFI Friendly City; these might include a marginal increase in CDFI financing in the city, the number of projects financed, or other metrics.

g. Staffing—a designated person independent of local government to lead the work, particularly serving as a liaison between supply and demand (local investment opportunities and CDFI investors), operational management, and CDFI knowledge over time. The absence of a dedicated staff person increases the possibility that the local strategy is an extension of rather than a lever for local government.

h. A public declaration that the city is a "CDFI Friendly City".

This description of what it means to be a "CDFI Friendly City" will be a work in progress and will likely evolve as more cities become "CDFI Friendly Cities".

Part of being a CDFI Friendly City may mean collaborating with other cities and places, in sharing best practices, knowledge, and experience.

Replication: The "CDFI Friendly Cities" Project

Five/Four Advisors expects to replicate Bloomington's work in other cities in 2018 and beyond. If the CDFI Friendly City model seems to produce real value for Bloomington and other early adopters, that value should grow with experience and replication. For that reason, Five/Four Advisors anticipates replication at a measured place to ensure a solid basis for growth. In 2018, that likely means a modest number of efforts toward replication across smaller markets—small cities of different sizes and rural communities—in multiple regions of the U.S. To the extent possible, replication should also reflect a range of financing strategies and asset types.

Five/Four Advisors is considering possible replication sites and invites interested communities to make initial inquiries to info@mnpinsky.com.

Appendix A

Progress Update (March 2020): CDFI Friendly Bloomington's First Year

by Brian Payne, Executive Director, CDFI Friendly Bloomington

Since announcing that it would become the first-ever CDFI Friendly City, Bloomington has made significant progress in executing this new model and is already providing benefit to South Central Indiana.

In December 2018, CDFI Friendly Bloomington was publicly launched with $4 million in capital commitments to provide financing for small business growth, affordable housing, community facilities, and other community development priorities in Bloomington and Monroe County. Initial seed funding of more than $250,000 for operations has been provided by the Community Foundation of Bloomington and Monroe County, the Bloomington Urban Enterprise Association, and local, regional, and national banks.

The founding board of directors drafted articles of incorporation, bylaws, and created CDFI Friendly Bloomington as a private nonprofit corporation in April 2019. The board also posted an opening for an executive director in April, hiring Brian Payne for the position in July 2019. Shortly thereafter, in September 2019, CDFI Friendly Bloomington's application for 501(c)(3) status was granted by the IRS.

Services Provided

CDFI Friendly Bloomington has developed four main services it provides to potential borrowers and CDFI lenders. First, we market and incentivize community development projects (affordable and workforce housing, small business growth, and new community facilities) to the CDFI world. CDFIs are increasingly specialized and unique from each other, so this matchmaking will help local projects connect with the CDFIs best suited to their needs. Second, CDFI Friendly Bloomington also helps provide the community knowledge, connections, and technical assistance that allows CDFIs to succeed where other financiers do not.

In addition to coordination and technical assistance, we offer two potential financial incentives for CDFIs who invest in our region. First, we have partnered with Bank of America, the nation's largest investor in CDFIs, to provide 0% financing to CDFIs to backstop loans made in our region. This affordable capital will help attract CDFIs south central Indiana, mitigate their risk in lending outside their target market, and may improve loan terms for our local borrowers. Finally, CDFI Friendly Bloomington can lend its own capital alongside CDFIs to bridge funding gaps, mitigate risk, and make community development projects a reality.

Scaling Up

We are a nonprofit startup, testing the viability of this unprecedented model, scaling up our operations and infrastructure, and focusing on the deals that positively impact the community while sustaining our fiscal solvency. One key factor in ensuring the latter is a fiscal sponsorship with the Community Foundation of Bloomington and Monroe County. This sponsorship provides workspace, budgeting assistance, and access to facilities and some office supplies that allow CDFI Friendly Bloomington to limit expenses as we grow. This sponsorship also includes a sponsor-level membership at a local innovation hub and cowork space: The Mill. Basing CDFI Friendly Bloomington in the Mill is an ideal fit: it is a central hub for the community stakeholders we serve, has built-in facilities to help our lean organization function at a high level, and provides a platform to reach entrepreneurs and small businesses. Plus, there are often valuable opportunities through Mill programming that inform our work in structuring investments, organizational management, marketing, and many other things a new organization needs.

In addition, CDFI Friendly Bloomington secured our first competitive grant award in November 2019. Regional Opportunity Initiatives, Inc. (ROI), is a regional economic development nonprofit focusing on South Central Indiana. CDFI Friendly Bloomington was awarded $100,000 in seed funding for operations from ROI as part of their Ready Communities grant program. This award also allowed us to expand our services to the entire region, adding 12 counties to our scope of activity

Measurable Impact

In October 2019, we closed our first CDFI Friendly financing project in Bloomington. Our first CDFI Friendly-supported project, Kinser Flats, is a new 50-unit permanent supportive housing facility catering to individuals and families touched by substance use disorder. It will be owned and operated by Centerstone Indiana, who intend to finish construction by the end of this year. While the final tenant breakdown is to be determined upon completion, our local housing authority will fill 20% of the units with Section 8 vouchers, and we expect many of the remaining units to be filled by individuals making below 100% of the area median income.

We also anticipate significant growth in projects funded in the coming year, as we continue to complete more and more of the important work of building and scaling up a brand new organization. Currently, two other local partners – one nonprofit and one small business – have worked with CFB to submit loan applications being considered by national CDFIs.

Specific Metrics

While we are proud of our first CFB-supported project, we have yet to directly invest our own capital in a CDFI project. As a result, financial metrics related to CFB Capital's direct loan portfolio are listed as "$0" or "N/A."

Metric	Value	Explanatory Notes
Total capital invested by CFB Capital	$0	CFB Capital has yet to make direct investments
Total capital investment from CDFIs in CFB projects	$9,482,000	This includes Low-Income Housing Tax Credits purchased by a CDFI from a local nonprofit. If restricted to loans alone, the value would be $482,000.
Total CFB capital investment from Monroe County-based sources	$0	CFB Capital has yet to make direct investments
Total number of investments closed	1	Kinser Flats
Total number of participating CDFIs	1	Notably, several CDFIs are engaged in discussions with potential borrowers, and another has offered a loan product specifically to CFB's region, but only one has invested via CFB thus far.
Total number of participating donors	9	This includes ROI, and any other equity or debt donors to CFB since the project's incipience. If restricted to equity grants alone, the number is 7
Total number of affordable housing units created	~50	Kinser Flats is not complete, so rents are not set in stone.
Total number of jobs created	1	CFB's Executive Director position. This figure does not include temporary construction jobs supported by CFB projects.
Percent of operating costs sustained by loan revenue	0%	CFB Capital has yet to make direct investments
Average percentage return on loans; default rate	N/A	CFB Capital has yet to make direct investments
Total capital invested through CFB	$10,806,000	This figure is the combined total project cost for all CFB-supported projects
Total amount of federal and state incentives leveraged	$9,000,000	This figure reflects the value of federal LIHTC credits syndicated and sold as part of the Kinser Flats project. The actual value of the credits over 10 years will be higher.
Investment % inside Bloomington city limits	100%	All of Cinnaire's investment in Kinser Flats is located within the City limits.

Appendix B

Membership or the Bloomington CDFI Working Group

Alex Crowley, Director Economic & Sustainable Development, City of Bloomington

Warren Cutshall, In House Counsel, Miller Real Estate LLC

Margaret Fette, Owner, The Tailored Fit (Bloomington Urban Enterprise Association)

John Hamilton, Mayor, City of Bloomington

Cindy Kinnarney, Market President, First Financial Bank

Randy Lloyd, Principal & General Counsel, TM Crowley & Associates

Tina Peterson, President & CEO, Community Foundation of Bloomington & Monroe County

Jeff Underwood, Controller, City of Bloomington

Appendix C

Bloomington Participants, Assessment Conversations August 21-22, 2017

Jim Silberstein, Ivy Tech Community College

Deborah Myerson, SCIHO

Susan Rinne, LIFEDesigns

Steve Bryant, Indiana SBDC/Ivy Tech Cook Center for Entrepreneurship

Amber Gress, Bloomington Housing Authority

Chris Cockerham, F.C. Tucker

Julie Donham, German American Bank and BUEA

Tina Peterson, Community Foundation of Bloomington & Monroe County & Regional Opportunity Initiatives, Inc.

Randy Lloyd, T.M. Crowley & Associates

Daniel Smith, Indiana University Foundation

Tony Armstrong, Indiana University Office of the Vice President for Engagement

Michael Valliant, Indiana University Center for Innovative Teaching and Learning

Margaret Fette, The Tailored Fit (Board Member of BUEA)

Mike Trotzke, Cheddar and Sproutbox

Pat East, Hanapin Marketing and VisionTech angel investor

Joe Carley, Indiana University, Associate Director of Economic Development

Paul Ash, Bloomington Urban Enterprise Association

Forest Fowler & Tyler Henke, CoWork Bloomington

David Haeberle, Kelley School (Indiana University), Envisage Technologies

Warren Cutshall, Miller Real Estate

Mayor John Hamilton, City of Bloomington

Alex Crowley, Director, Economic Development & Sustainability, Bloomington

Brian Payne, Assistant Director Small Business Development, City of Bloomington

Appendix D

CDFI Industry Participants in the September Assessment Conversations

September 26-27, 2017

Dan Betancourt, Community First Fund, Lancaster, PA

Allison Clark, The John D. & Catherine T. MacArthur Foundation, Chicago, IL

Beth Davis, Dakota Resources, Renner, SD

Ignacio Esteban, Florida Community Loan Fund, Orlando, FL

Jeannine Jacokes, Partners for the Common Good Loan Fund, Washington, DC

Amir Kirkwood, Amalgamated Bank, New York, NY

John Hamilton, Mayor, City of Bloomington

Mark McDaniel & James Peffley, Cinnaire, Lansing, MI

Joe Neri, IFF, Chicago, IL

Tina Peterson, Community Foundation of Bloomington & Monroe County

Shawn Wellnitz, Entrepreneur Fund, Duluth, MN

Appendix E

Participants in the Bloomington Engagement Convening

November 8, 2017

Amanda Barge, County Commission, Monroe County, IN

Dan Betancourt, Community First Fund, Lancaster, PA

Phil Black, Community Investment Fund of Indiana, Indianapolis, IN

Ana Bono, Greater Bloomington Chamber of Commerce, IN

Keith Broadnax, Cinnaire, Indianapolis, IN Steve Bryant, Ivy Tech, Bloomington, IN

Joe Carley, Indiana University, Bloomington, IN

Moira Carlstedt, Indiana Neighborhood Housing Partnership, Indianapolis, IN

Allison Clark, The John D. & Catherine T. MacArthur Foundation, Chicago, IL

Ryan Cobine, County Council President, Monroe County, IN

Chris Cockerham, F.C. Tucker Bloomington Realtors, Bloomington, IN

Lynn Coyne, Bloomington Economic Development Corporation, Bloomington, IN

Alex Crowley, Economic and Sustainable Development Department, Bloomington, IN

Warren Cutshall, Miller Real Estate, Bloomington, IN

Efrat Feferman,United Way of Monroe County, Bloomington, IN

Margaret Fette, Bloomington Urban Enterprise Association, Bloomington, IN

Katey Forth, Cinnaire, Lansing, MI

Peggy Frisbe, Rutger and Robinson Attorneys at Law, Bloomington, IN

Patricia Gamble-Moore, PNC, Indianapolis, IN

Amber Gress Skoby, Bloomington Housing Authority, Bloomington, IN

Don Griffin, Bloomington Redevelopment Commission, Bloomington, IN

Tom Guevara, Indiana University Public Policy Institute, Indianapolis, IN

John Hamilton, Mayor, City of Bloomington, IN

Yvonne Harrington, KeyBank, Indianapolis, IN

Paula Jensen, Dakota Resources, Renner, SD

Terri Johnson, Indiana Philanthropy Alliance, Indianapolis, IN

Gar Kelley, Federal Reserve Bank of Chicago, Chicago, IL

Cindy Kinnarney, First Financial Bank, Bloomington, IN

Daniel Letendre, Bank of America, New York, NY

Randy Lloyd, TM Crowley & Associates, Bloomington, IN

Carla Mannings, Partners for the Common Good & CapNexus, Washington, DC

Jane Martin, Bloomington, IN

Geoff McKim, County Council, Monroe County, IN

Jeff Merkowitz, The CDFI Fund, Washington, DC

Tom Moore, Vectren Foundation, Evansville, IN

Deborah Myerson, South Central Indiana Housing Opportunities, Bloomington, IN

Darry Neher, Habitat for Humanity of Monroe County, Bloomington, IN

Joe Neri, IFF, Chicago, IL

Marty Richardson, Old National Bank, Grand Rapids, MI

Susan Rinne, LifeDesigns, Bloomington, IN

Sarah Rogers, IU Credit Union, Bloomington, IN

Scott Shishman, Old National Bank, Bloomington, IN

Doris Sims, City of Bloomington Housing and Neighborhood Development, Bloomington, IN

Megan Teare, Wells Fargo, Minneapolis, MN

Tina Peterson, Community Foundation of Bloomington & Monroe County, IN

Dan Peterson, Cook Medical, Bloomington, IN

Joyce Polling, Ivy Tech, Bloomington, IN

Bryan Price, IU Credit Union, Bloomington, IN

Jeff Quyle, Radius, South Central Indiana

Mike Trotzke, Cheddar, Bloomington, IN

Jeff Underwood, City of Bloomington, IN

Dirk Webb, Bankable, Indianapolis, IN

Brad Wisler, Sprout Box, Bloomington, IN

Peter Yonkman, Cook Medical, Bloomington, IN

Appendix F

Agenda for the Bloomington Engagement Convening
November 8, 2017

CDFIs & Bloomington

A National Convening on CDFIs Serving Smaller Markets

Hosted By

The Community Foundation of Bloomington & Monroe County

The Bloomington Urban Enterprise Association

AGENDA

9:00 AM	Welcome, Tina Peterson, Community Foundation
	Goals & The Day Ahead, Mark Pinsky, Five/Four Advisors
9:20	Conversation #1: Introducing CDFIs to Bloomington
10:30	Break
10:45	Conversation #2: Introducing Bloomington to CDFIs
12:00	Lunch onsite
12:30	Strategies for Serving Smaller Markets, Jeff Merkowitz, CDFI Fund
	Keynote: Bloomington-CDFI Connection, Mayor John Hamilton
1 PM	Bloomington Opportunities: Overview of the Development Market
1:30	Exploring Real Deals: Roundtables on Opportunities • Small Business • Affordable Housing • Nonprofit Facilities • Commercial Real Estate
3:00 PM	Takeaways, Responses & Next Steps
3:30 PM	Conclude

Appendix G

List of Investment Opportunities for Discussion

Bloomington, IN

November 8, 2017

Commercial Office Space: Trade District Flexible Office Building

Community Facility: Bloomington Regional Food Hub

Mixed Use Development: IU Health (Former) Hospital Site

Affordable Housing: Kinser Flats/LIFEDesigns

Affordable Housing: Downtown Lot Owned by the First United Methodist Church

Affordable Housing: Middle Earth/Bloomington Cooperative Living

Affordable Housing: Converting Manufactured Housing Communities to Tiny Home Pocket Neighborhoods

Affordable Housing: Park Entrance Housing/Switchyard

Expanding Pathway Programs Model: Public-Private Partnership to Increase Economic Mobility

Community Facility: Childcare/Pre-K Facilities in Downtown

Affordable Housing: Capitalizing Rental Home Sustainability

Small Business: Job-Creating Small Business Capital

Affordable Housing: Switchyard Apartments

CDFI Friendly South Bend

A CASE STUDY OF A NEW CDFI FRIENDLY STRATEGY

FEBRUARY 2020

CDFI
FRIENDLY
AMERICA

Summary

In late 2018, the City of South Bend became interested in the CDFI Friendly Communities model as a tool to bring new forms of flexible, affordable capital to fill financial gaps in the region. After learning about this organizing strategy developed in Bloomington, IN, the South Bend community began a collaborative planning process to evaluate what it would take to become a CDFI Friendly Community.

The City committed to work with Five/Four Advisors and develop a strategy for substantially increasing financing by community development financial institutions (CDFIs) and others in and around South Bend. South Bend is a city of approximately 100,000 people with a more diverse population than the rest of Indiana, approximately 25% of the population identifies as African-American and approximately 13% identifies as Latinx (U.S. Census Bureau, 2010 Census). Median incomes are significantly lower than the county and nation's median while poverty rates are higher than corresponding rates for the county, state, or country. South Bend's households are more likely to be renters and cost burdened than households in the rest of the state. The city is home to just over 5,000 businesses, 89% of which are owned by men who are white. The population faces notable financing challenges in every area of lending, from start up and small business lending to mortgages for homes assessed under $100,000 to larger, complex transactions for multi-family housing development or community facilities.

The community formed a CDFI Working Group, with representation from residents, community organization leaders, financial institution executives, City officials, University of Notre Dame representatives, CDFIs currently working in South Bend as well as those interested in future work in South Bend, and others. The Working Group was charged with learning about CDFI operations, determining whether local need aligned with CDFI lending capacity, and identifying deals that were ripe for CDFI financing. Ultimately, the community produced a CDFI Friendly South Bend Business Plan based on more than one year's work by the collaborative CDFI Working Group. Five/ Four Advisors prepared this Business Plan for the City of South Bend in partnership with a project team comprised of City of South Bend staff and external consultants.

The plan lays out a phased and multifaceted effort to increase CDFI financing for small businesses, particularly— but not only— small businesses owned by entrepreneurs of color; affordable housing, particularly— but not exclusively— for home ownership for low-income and working class people; and community facilities and community services.

Implementation will start in 2020 with a concentrated effort to make financing available to entrepreneurs of color and limited-income prospective homebuyers. These two areas of need and demand were identified as community priorities by the Working Group. Both are areas where there appears to be potential for significant volume of activity and for effective use of CDFI financing without delay.

Second, the plan intends to increase the supply of flexible, affordable financing for multifamily housing, including— but not limited to— supportive housing, as well as community facilities and commercial real estate.

The plan details creation of a single-purpose nonprofit (501.c.3) entity ("CDFI Friendly South Bend" until renamed by the founding Board of Directors) with one (1) to one-and-one-half (1.5) FTEs; an annual budget averaging less than $175,000 per year for its first three years; and a Board representing community, financial, City, and other interests. To pay operating costs, the entity is seeking grant funding from financial institutions corporations, the City of South Bend, philanthropic institutions, educational institutions, and others.

The plan also includes a complementary financing fund, tentatively called the South Bend CDFI Enhancement Fund, to make it easier and less risky for CDFIs serving South Bend to identify, underwrite, and invest in local opportunities. The plan anticipates this fund will be capitalized at $3 million.

Our estimate is that the plan could result in more than $17 million in new financing by CDFIs in South Bend over just 3 years from 2020-2022. This financing is expected to meet needs that otherwise would not be served. By contrast, CDFIs provided less than $4 million in new financing in South Bend for the 15 years 2003-2017.

The entity will seek capital grant and debt investments to the Enhancement Fund from the same sources. The City of South Bend has approved startup funding of $500,000, of which up to 20% ($100,000) is available for operations and the remaining balance ($400,00) is for capitalization of the Enhancement Fund. Fundraising targets for startup include:

- At least $75,000 for operations in Year One (2020) plus $350,000 for Years Two and Three (2021-2022).
- $1.1 million in additional grant funding for Enhancement Fund equity capital, and
- $1.5 million in fixed-rate, low-cost debt for Enhancement Fund leveraged debt.

CDFI Friendly South Bend's mission is to increase the flow of capital in and around South Bend in support of affordable housing, entrepreneurs starting and expanding small business, and nonprofits benefiting the community's residents.

The South Bend Process

South Bend has not drawn the level of CDFI attention and financing that it could use. Many leaders in South Bend long recognized the need to increase the supply of flexible, affordable financing to address a range of issues that are outside the reach of mainstream financial institutions and public funding sources. This understanding was further underscored by the City of South Bend's September 2019 study of disparities by race and gender in City contracting. The study identified limited access to financing for business operations and capital costs as a key barrier for entrepreneurs of color. In addition, the need for mortgage financing to increase home ownership among low-income and moderate-income residents in a market that is stalled due to a persistent and significant appraisal gap.

The process began with City officials and has been paid for with City funds. From the start, however, the CDFI Friendly South Bend organizing process relied on a working group of community organizations, traditional finance, and CDFIs to inform its goals and prioritize its outcomes. That coalition organized into a CDFI Working Group to steer research and action. This Working Group included thought leaders from the aforementioned sectors and benefitted greatly from their leadership and deep knowledge.

This approach ensured that local stakeholders understand the role CDFIs can play in partnership with existing financing sources. Further, local stakeholders have keen interest in using CDFI capital to meet existing demand and fill financing gaps among entrepreneurs, small business owners, and to increase the supply of affordable housing units.

Local stakeholders initially showed interest in forming a *de novo* (independent startup) CDFI in South Bend. Several major barriers emerged:

1. Starting a *de novo* CDFI would require prohibitively large amounts of capital;
2. CDFI, particularly new and young ones, tend to specialize in the types of financing they offer, while local capital gaps span many types of financing demand; and
3. The South Bend market does not generate sufficient deal flow to support a *de novo* CDFI, a central issue for smaller markets.

Local organizers next considered partnering with existing CDFIs and urging them to open branches or franchise offices locally. Initial conversations with regional CDFIs were positive, but it became clear that similar barriers would constrain existing CDFIs from devoting resources to new brick and mortar presences in South Bend, at least in the short term.

Instead, local stakeholders chose to become a CDFI Friendly Community, signaling to existing CDFIs that assistance, key partnerships, and financial resources could be available to help them expand CDFI lending in South Bend. There are currently at least 13 CDFIs operating in Indiana but none with a full-time physical presence in South Bend. At least two local community credit unions are seeking certification from the CDFI Fund and this planning process has encouraged some CDFIs to establish regular, part-time presences here. Over the past year, the CDFI Friendly organizing effort identified half a dozen CDFIs who have done some work in South Bend and are interested in partnering to do more. As this work continues, we expect that CDFIs will become increasingly familiar with the South Bend market, more active in seeking and financing deals, and continue to devote resources to growing their local presence.

Organizing Timeline

October 2018: Chicago Federal Reserve Bank, Federal Depository Insurance Commission, Office of the Comptroller of the Currency, and the City of South Bend convened stakeholders representing service providers, traditional financial institutions, and CDFIs to discuss CDFI lending in smaller markets. This meeting started the conversation about what CDFIs can do and connected this concept to local capital gaps.

November 2018-May 2019: Local stakeholders formed a CDFI Working Group* that met monthly to learn more about CDFI lending and make suggestions to leverage this tool locally, helping the project team scope the landscape of capital need in South Bend.

June 2019: City of South Bend hosted a convening entitled, "Investing in Our Future: Expanding South Bend's Commitment to Inclusive Growth". This event highlighted insights from the Working Group's conversations and demonstrated that representatives from banks, credit unions, CDFIs, and community organizations were all excited to move forward with a CDFI Friendly strategy in South Bend. Mayor Pete Buttigieg spoke at the convening and highlighted the pivotal role CDFIs can play in both local economic development efforts and a national strategy to increase financial options for many communities.

July 2019: Project team debriefed June convening with Working Group and members of the public, as well as sharing timeline to complete Business Plan by yearend 2019.

August 2019: Project team conducted initial conversations with potential funders of CDFI Friendly South Bend, including financial institutions, community organizations, and government.

September-October 2019: Project team hosted focus groups and targeted follow up conversations to nuance the Team's understanding of local capital gaps and share successful CDFI products that could solve capital gaps with local stakeholders.

November–December 2019: South Bend Common Council approved budget line item to support CDFI Friendly South Bend in 2020 and received formal presentation of business plan. Draft business plan presented to and discussed with various potential funders and investors.

January 2020: CDFI Friendly South Bend is publicly launched, including Board composition, comprised of stakeholders from community organizations, government, and financial institutions.

Market Conditions

South Bend Housing Market

Of the 39,025 occupied housing units in South Bend, more than 31,000 were built before 1980 and are aging stock. 22,335 (57%) of the units are owner occupied, below County (70.4%) and national (65.4%) owner-occupancy levels. In the 16,690 rental housing units, 7,419 (44%) are rent burdened, paying at least 30% of their income for rent, and 3,903 (23%) are severely rent burdened, paying at least 50% of their income for rent.

As of 2017, homes valued at less than $80,000 in South Bend made up at least 31% of the total single family residential asset base and comprised more than 70% of homes on the market, yet received just 22% (by number) of the mortgages originated and only 6% of the mortgage financing (by dollar). These data convincingly reinforce the demand the CDFI Friendly planning process surfaced for mortgage financing in the under$80,000 category.

Affordable Housing Challenges in South Bend

Through a combination of learnings from data analysis, conversations with City housing officials, insight from affordable housing developers, and a recent focus group about increasing the supply of all types of affordable housing in South Bend we conclude:a

- Much of the housing stock is aging and has often been poorly maintained.

- There is large variation between neighborhoods, with many renters priced out of neighborhoods closer to amenities or containing higher quality housing stock.

- Those seeking to buy homes face a shortage of available units and struggle to secure capital to purchase homes, especially buyers seeking to purchase homes assessed under $80,000.

- South Bend developers and buyers face a significant and persistent appraisal gap. In other words, the cost of property acquisition and construction or rehabilitation is significantly greater than the appraised value of the home.

- Chronically homeless populations face challenges finding permanent housing as there is an insufficient number of supportive housing units.

There are other credit gaps and challenges, for example, financing for multifamily projects and supportive housing, but these are likely to be a lower volume of overall requests. Initially, CDFI Friendly South Bend will focus on higher volume gaps where existing CDFI lending products can be deployed.

Potential CDFI Financing Solutions: Affordable Housing

There are many financing solutions that could help alleviate the housing shortage in South Bend. In this stage of the process we are focusing on two solutions that we feel could be relatively easily accomplished and could have significant impact:

1. Home mortgages for $80,000 or less; and
2. An innovative "shared home ownership" model.

Several local credit unions and banks shared that they offer mortgages for $80,000 and less to qualified applicants. Matching up qualified applicants with these institutions could be one activity for CDFI Friendly South Bend. The challenges that remain in this area are increasing the number of qualified borrowers and finding properties in this price range that either do not require substantial rehab or are still within this price range including the cost of rehab. CDFI Friendly South Bend will be depending on homeownership counselors to help qualify applicants. Becoming a qualified applicant can be a rigorous effort for a low- or moderate-income household but the City offers homeownership counseling and one-on-one guidance to become prepared. Increasing the presence of CDFI lenders to complement the offerings of banks and credit unions will open the path to home ownership to a wider pool of applicants.

South Bend Small Business Market

The robust small business community in South Bend comprises 5,303 small businesses, according to the City's 2019 disparity study. Just 594 businesses (11.2%) are owned by minorities and women, well below the minority and female population of the city. By comparison, 4,709 businesses (89%) are non-women or minority owned businesses. The City of South Bend recently completed a Disparity Study, which provides a substantive guide for improving procurement practices so that they better reflect community expectations.

Small Business Challenges in South Bend

Through a combination of quantitative data analysis, conversations with City officials, small business technical assistance providers, and from a recent focus group about the challenges South Bend small business have in accessing capital the following picture of the market emerged:

- South Bend has rich resources in its community organizations and public institutions providing technical assistance to current and aspiring small business owners. However, these organizations are not designed to provide small businesses with capital and their customers have not always had positive relationships with traditional financial institutions.
- Entrepreneurs currently face problems around the speed with which they can access loans, requirements for credit history and collateral, as well as repayment timelines.
- Some small business owners and entrepreneurs have challenges accessing smaller loans, generally under $50,000.
- The City's 2019 Disparity Study shows a need for more contractors owned by People of Color.

According to 2017 CRA Small Business Loan data, banks received 3,541 small business applications in the South Bend MSA, and approved only 23.6% of them. There are other credit gaps and challenges, for example, financing for commercial real estate for light manufacturers, but these are likely to be a lower volume of overall requests;

initially CDFI Friendly is focusing on the higher volume gaps.

Potential CDFI Financing Solutions: Small Business

There are many financing solutions that could help alleviate this capital gap. In this stage of the process we are focusing on two solutions that we feel could be relatively easily accomplished and could have significant impact. Brightpoint, Bankable, and ACCION Chicago are beginning to serve South Bend with microloans. These loans are up to $50,000 for businesses of five employees or fewer including the owner(s). These loans are approved based on a combination of ability to repay based on business and personal cash flow, credit scores, experience in the business, and do not depend as much on collateral. ACCION is also rolling out a line of credit product that could benefit contractors who need capital to bridge the timing gap between purchasing supplies and employees and being paid by large anchor institutions. Banks, Credit Unions, and CDFIs also mentioned they offer micro and larger small business loan products, some with SBA guarantees. The SBA guarantee process can be challenging for smaller businesses and some people are excluded. The CDFI Friendly effort has made warm introductions between the small business TA providers and CDFIs, and we anticipate that matching capital sources and applicants will be a major activity of the CFSB Executive Director.

Startup and existing businesses can receive support from the Indiana Small Business Development Center, the West Side Small Business Center, the South Bend Elkhart Regional Partnership, and the Women's Entrepreneurship Initiative at St Mary's. By engaging with these organizations, entrepreneurs can be better prepared to seek loans from banks, credit unions, or CDFIs.

Several CDFIs have processed small business loans in South Bend, but at relatively low volumes. ACCION Serving Illinois and Indiana closed four loans from 2014-2019 for $2,500; $2,500; $6,000; and $36,000. Half the applicants were African American and half white, with three men and one woman. Brightpoint Development Fund closed three loans to two people between 2018-2019 for $500; $1,000; and $1,500. One applicant, a white male received a $500 business builder loan and then a $1,000 loan while the second applicant, an African American woman, received a $1,500 loan. Bankable closed two loans in 2019 for $15,000 and $50,000. Both businesses were startups and woman-owned.

ACCION Serving Illinois and Indiana, a high volume microlender serving Illinois and Indiana, is ready to devote resources to South Bend, and has the capacity to do 30 plus micro loans per year in the Greater South Bend Market. We assume that Bankable and Brightpoint will continue to increase their efforts in South Bend, while Accion has committed to beginning to take in clients in early 2020.

One financial institution has already collaborated with City staff to create a new small dollar commercial loan product for residents seeking to access the City's Sidewalk Repair Program. The City hopes to finalize a similar product for businesses seeking to access the Façade Repair Matching Grant. Both these opportunities represent high volume pipelines of personal and small business loans respectively.

Implementation

All nonprofit corporations need to organize their human resources, raise funds, and develop systems in order to be successful. The process of standing up CDFI Friendly South Bend involves several components, including:

- Selecting and forming the Board of Directors;
- Recruiting, selecting, and hiring an Executive Director;
- Finalizing the funding commitments for both operations and the Capital Enhancement Fund;
- Continuing work with CDFIs and local social enterprises to identify and cultivate possible CDFI financing transactions
- Numerous administrative requirements.

Implementing CFSB benefits tremendously from the experience in Bloomington. South Bend stakeholders worked closely with Bloomington leaders, including the recently hired Executive Director of CDFI Friendly Bloomington and the Five/ Four Team, and concluded that implementation should simultaneously pursue administrative and financing goals. This will allow the organization to form a Board, begin a hiring process, and continue building on the organizing work conducted by the Working Group without losing momentum. By January 2020, the City of South Bend will hire a law firm to create the corporate entity that will be CFSB and file required legal papers

Selecting and forming the Board of Directors: Jan – April 2020

The CDFI Friendly South Bend Board includes 9-13 people in and around South Bend with key skills and representations, including community development experience, specifically community development finance, affordable housing, and small business development. It also includes people with other critical skills to most nonprofits such as marketing and communications, management, and strategy.

The Board is accountable to the community through the appointment of members who are leaders in the community and who are knowledgeable about South Bend's various community development support organizations and developers. The Board includes representatives of at least some of the companies invested in the Capital Enhancement Fund, including the City of South Bend. However, being an investor is not a guarantee of a seat on the Board, as a variety of perspectives will strengthen CFSB.

The list of nominees for the founding Board was developed in consultation with the CDFI Friendly Working Group. After the first set of Board Members was appointed, the Board will be self-appointing and recruit its own members.

Recruiting and hiring an Executive Director: March – August 2020

The Board's most important first task will be the selection of the Executive Director. As the first employee, this person will lead the organization and be the public face. The Board will want an individual with knowledge and preferably relationships with the community development organizations and leaders in South Bend, the ability to be a liaison between financial institutions and a diverse set of borrowers, and preferably some familiarity with the financing process. The candidate does not necessarily need to be knowledgeable about CDFIs, as that can be learned on the job. The candidate must to be self-motivated and be able to work on their own.

The search process will begin with the Board deciding how to conduct the process; it could choose to form a committee or act as a committee of the whole. It could hire a search firm or do it on their own. The next step is approving a Job Description and a compensation range. The job description will likely be very similar to the one used to recruit the Executive Director at CDFI Friendly Bloomington, and the Board can learn about compensation ranges from that organization as well. Once the Job Description is approved, the recruitment process can begin, including posting on relevant internet job sites, Board, City officials, investors, and working groups members networking and encouraging appropriate candidates to apply, and any appropriate advertising. Once a month or when a reasonable number of qualified resumes are received, these resumes should be evaluated as to how well they match up with the requirements listed in the Job Description. The Board Committee or search firm should conduct first interviews of the top three to five candidates and choose the top two candidates. These candidates will participate in a second, more in depth, interview process and then the finalist should be chosen. The Board should vote on the finalist. After checking references, CDFI Friendly South Bend will make an offer, which hopefully will be accepted. The recruitment process will take three to six months.

An orientation process will be developed based on the skills and experience of the Executive Director, including but not limited to a review of the CDFI Friendly organizing effort and all that we learned in that process, introductory meetings with key players not on the Board, training in CDFIs (if needed), and any nonprofit management skill development.

Administrative Requirements: January – October 2020

Starting any organization requires figuring out and implementing many basic administrative requirements. Some of these will be accomplished by the Board prior to the hire of the Executive Director and others should wait until the staff person is in place.

The Board should:

- Form the legal corporation;
- Establish bank accounts; and
- Find office space and furniture. This could be in a shared or incubator space, but it is not recommend-

ed to be co-located with government or traditional financial institution. It should be easily accessible to public transportation and include access to conference room space.

The Executive Director should:

- Contract for accounting, bookkeeping, and technology services. The Board will approve the auditor;

- Draft and approve basic organizational policies including accounting, personnel, and investment policies that cover the operation of the Capital Enhancement Fund as well as how to best manage idle cash.

- Determine branding, obtain the domain name, and develop the company's web site; and

- Apply for 501.c.3 status

Due to the technical nature of many of these startup tasks, the limited volunteer time of the Board, and the desire to capitalize on the organizing effort and move quickly, CDFI Friendly South Bend will benefit from the ongoing commitment of a point person familiar with this effort and may choose to continue its contract with Five/ Four advisors.

With the Board, staff, and funds in place, the organization will be ready to start operations. Many of the administrative components can be completed even as the operations of matching applicants with sources of financing begins.

Conclusion

CDFIs bring a spark of creative problem solving that is essential to addressing problems that have lacked other answers. Diverse stakeholders from government, nonprofits, traditional finance, and CDFIs have all engaged in identifying capital gaps in South Bend that are a good fit for CDFI financing. Stakeholders are poised to create a new nonprofit entity that will continue to organize and education the community to leverage of CDFI partnerships in service of small business, affordable housing, community facilities development, and many other vital projects.

Appendix A

South Bend CDFI Working Group Members

Name	Organization
Akeelah Harrell	Manager of Inclusion Projects at City of South Bend
Alan Steele	Regional Director at Northwest Indiana Small Business Development Center
Alex Strati	Regional CEO at Old National Bank
Alkeyna Aldridge	Community Engagement & Economic Empowerment at City of South Bend
Amy Kuhar Mauro	Vice President at 1st Source Bank
Andy Burggraf	Chief Executive Officer at Community Wide Credit Union
Angela Workman	Vice President of Programs at Community Foundation of St. Joseph County
Angelina Billo	Business Development Manager at City of South Bend
Angie Swartz	Retail Center Manager at Old National Bank
Anne Mannix	President at Neighborhood Development Associates
Anthony Bridgeman	Vice President of Community Development Banking at PNC Bank
Art Russell	Vice President and CRA Officer at Centier Bank
Beth Wittling	President and COO at Business Development Corporation
Bethany Hartley	Director of Diversity & Inclusion at South Bend Elkhart Regional Partnership
Bill DeLuca	Commercial Loan Officer at Teachers Credit Union
Brad McConnell	Chief Executive Officer at Accion Serving Illinois and Indiana
Brett Bauer	Vice President and Chief Investment Officer at 1st Source Bank
Brian Donoghue	Director of Innovation at City of South Bend
Celena Green	Founder at Foundre
Chad Douglass	Chief Lending Officer and Senior Vice President at Teachers Credit Union
Christina Brooks	Diversity and Inclusion Officer at City of South Bend
Chuck Leone	Attorney at Halpin Slagh
Cindy Kirkham	Community Development Analyst at 1st Source Bank
Dan Buckenmeyer	Director of Business Development at City of South Bend
Dan Eggleston	Co-Founder at Main Street Match
David Balkin	Chancellor South Bend-Elkhart at Ivy Tech Community College
David Finley	Director of Business Analytics at City of South Bend
DeAnna Moyers	Vice President of Mortgage Services at Teachers Credit Union
Denise Riedl	Chief Innovation Officer at City of South Bend
Dennis Cecil	Community Development Relationship Man. At Woodforest National Bank
Esmi Rivera	Diversity and Inclusion Officer at Notre Dame Federal Credit Union
Garvester Kelly	Community Development Director at Federal Reserve Bank of Chicago
Geoff Barden	Portfolio Analyst at 1st Source Bank
Gerald Mast	Vice President and Tax Director at 1st Source Bank
Greg Hakanen	Board Member at Northeast Neighborhood Revitalization Organization
Hardy Blake	Director at West Side Business Development Center
Jada McLean	Co-Founder at Hurry Home
James Seitz	President at 1st Source Bank
James Summers	Director at West Side Business Development Center

Jamie Morgan	Senior Policy Fellow at City of South Bend
Jason Arnold	Director, Fitzgerald Institute for Real Estate at University of Notre Dame
Jason Taege	Michiana Market President at Old National Bank
Jeanne Golliher	President and Chief Executive Officer at Cincinnati Development Fund
Jeff Wisler	Woodforest National Bank
Jitin Kain	Deputy Director of Public Works at City of South Bend
Joe Neri	Chief Executive Officer at IFF
John Gibbons	Co-founder at Hurry Home
John Wingfield	Branch Manager at Centier Bank
Josue Ortiz	Branch Manager at Woodforest National Bank
Karen White	Member at South Bend Common Council
Karl King	Board Member at Northeast Neighborhood Revitalization Organization
Karol Griffin	Director of Financial Empowerment and Historian at Teachers Credit Union
Kate Lee	Director of Talent Engagement at South Bend Regional Chamber
Kathy May	Vice President of Mortgage Operations at Teachers Credit Union
Kathy Schuth	Director at Near Northwest Neighborhood, Inc.
Keith Broadnax	Senior Vice President at Cinnaire
Kyle Fawcett	Director of Marketing at Bankable
Laura O'Sullivan	Chief of Staff at City of South Bend
Len Amat	Michiana Market President at Centier Bank
Liz Maradik	Principle Planner at City of South Bend
Lory Timmer	Director of Neighborhood Grants at City of South Bend
Luis Zapata	Vice President and Financial Wellness Administrator at 1st Source Bank
Marco Mariani	Executive Director at South Bend Heritage Foundation
Mark Gould	Vice President and Community Development Manager at 1st Source Bank
Marty Wolfson	Member at Community Forum for Economic Justice
Mary Fran Riley	Senior Vice President External Affairs at Accion Serving Illinois and Indiana
Matt Roth	President of Core Business Solutions at IFF
Maureen McKenna	Senior Development Officer at Community Reinvestment Fund, USA
Mike Hastings	Board Member at Northeast Neighborhood Revitalization Organization
Mike Keene	Principle at Thrive Michiana
Mike Morris	Professor at University of Notre Dame
Neil Miller	Commercial Business Banker at 1st Source Bank
Nick Johnson	Director of Lending at IFF
Nicola Brown	Co-Founder at Main Street Match
Pam Meyer	Director of Neighborhood Development at City of South Bend
Paulina Mayagoitia	Branch Manager at Woodforest National Bank
Pat Gamble-Moore	Senior Vice President, Community Development Banking at PNC Bank
Patrick McGuire	Intern at City of South Bend
Pete Morgan	Attorney at Hackett Associates
Phil Black	Executive Director at Community Investment Fund of Indiana
Phillip McCandies	Business Development Officer at Community Investment Fund of IN
Ralph Villalon	Community Development Outreach Officer at Lake City Bank
Regina Emberton	President and Chief Executive Officer at South Bend – Elkhart Regional Partnership

Robin Newberger	Senior Business Economist at Federal Reserve Bank of Chicago
Rose Meisner	President at Community Foundation of St. Joseph County
Ryan Bell	Assistant Vice President at 1st Source Bank
Scott Ford	Associate VP for Economic Development at University of Notre Dame
Shelli Alexander	Senior Vice President at 1st Source Bank
Sherry Aden	Vice President of Operations at Brightpoint Development Fund
Sonja Karnovsky	Business Analyst at City of South Bend
Stephanie Socall	Managing Director of Lending at IFF
Steve Watts	Community Bank President at Centier Bank
Steve Hoffman	President and CEO at Brightpoint Development Fund
Susan Longworth	Senior Business Economist at Federal Reserve Bank of Chicago
Taryn Macfarlane	Indiana Regional Program Officer at Asset Funders Network
Tim Corcoran	Director of Planning at City of South Bend
Tim Scott	Member at South Bend Common Council
Todd Bruce	Commercial North Region Manager at Lake City Bank
Tom Gryp	President and CEO at Notre Dame Federal Credit Union
Tony Obringer	Vice President at 1st Source Bank
Venus Myles	Branch Manager at PNC Bank
Willow Wetherell	Director at Women's Entrepreneurship Initiative at St. Mary's

Appendix B

Sample Deal Sheets created for June 2019 Convening

The following deals represent real borrowers in need of capital. This information was assembled into deal sheets that were distributed in a collaborative activity during the South Bend CDFI convening hosted in June 2019. These deal sheets gave CDFIs and other out-of-town attendees a window into the variety of capital gaps in South Bend and helped local attendees familiarize themselves with CDFI lending possibilities.

	Capital Needed	Lending Category
New Neighborhood Center	$500,000	Community Facilities
Theater Renovation	$399,900	Community Facilities
Office Property Development	$1,200,000	Commercial Real Estate
Mixed Use Development	$975,000	Commercial Real Estate
Senior Housing Development	$1,131,000	Residential Real Estate
Catering Company	$50,000	Small Business
Alternative Home Ownership startup	$1,000,000	Small Business
Community Bookstore	$50,000	Small Business
Coding Education Startup	$20,000	Small Business
New Athletic Facility	$800,000	Small Business
Outdoor Equipment Startup	$75,000	Small Business
Fundraising Software Startup	$50,000	Small Business
Loan Pool for Home Ownership	$500,000	Community Loan Pool
Sidewalk Repair Loans	$125,000	Retail Lending
Payday Lending Alternative	$195,000	Retail Lending
Gap Financing for New SFR	$500,000	Home Mortgages

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