CDFIs & Impact Investing: An Industry Review

Elise Balboni
Senior Vice President for Lending

Christina Travers
Vice President for Capital Strategies & Treasurer

December 2017

LISC

A Message from our President & CEO

What you are about to read in this document is of critical importance to anyone working to ensure that all Americans have the power to share broadly in the vast prosperity and dynamism of this country. It is an overview and analysis of the CDFI industry and its trajectory of social impact investing—investing in people and places where demand for physical and economic revitalization and growth is high, but where capital has long been in short supply. Not only do CDFI investments help strengthen communities, they provide a robust rate of return and fuel the larger economy.

The landscape of our field, along with our society and economy overall, has changed dramatically since the CDFI industry began taking shape some 50 years ago. Those changes demand new strategies for channeling capital into this crucial, ongoing work. As public and other financing pools shift or dwindle, it is more important than ever for CDFIs to create wide-ranging public-private partnerships and diversify funding streams. LISC's foray into the capital markets early this year—with other CDFIs following suit—is just one example of how we can expand and vary our resource pool.

What hasn't changed is the desire we all share to live in safe, healthy, lively communities and to have access to quality education, healthcare and fulfilling work that pays a good wage; to have the means to reach our potential as social, intellectual and spiritual beings; to contribute to the wider society and economy in ways that make our nation a competitive and beneficent actor in the international community.

We know it's a tall order, and a complex one, but it is our moral imperative to fill it. To make this a reality, CDFIs must continue to explore new territory, and forge new tools, in the service of social enterprise investment and of an inclusive society.

Maurice A. Jones, President & CEO

Introduction

Many urban and rural communities throughout the country lack the capital and resources necessary to create opportunity and promote growth. The community development financial institution ("CDFI") industry has focused on filling this gap by investing extensively in these communities to improve their economies, physical environment and the financial well-being of residents. In many ways, CDFIs have been pioneers of promoting progress by investing for social impact.

Recently, an international effort has coalesced around the concept of "impact investing." According to the Global Impact Investing Network ("GIIN"), impact investments are "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return." The term has a fairly short history, dating back only to 2008, but the concept has gained traction among mission-driven investors as a market-based opportunity to foster positive social change.[1]

As CDFI practitioners and funders will attest, CDFIs have been impact investment vehicles for decades, investing in financially underserved communities and providing investors with both financial and social returns. Over the past several years, CDFIs have ventured further into the expanding impact investing market and attracted capital through specialized off-balance sheet funds and on-line impact investment platforms. And very recently, several CDFIs have tapped the capital markets to pursue their community development missions, opening up an attractive new source of capital for the industry.

Despite a relatively small asset size, I think it's fair to say that CDFIs punch above their weight... CDFIs are an important vehicle for driving lending and investment in underserved communities and play an integral role with banks and other financing partners to spur their investment in low-income communities.[2]

—Annie Donovan, CDFI Fund Director, 2017 OFN Keynote Address 9/28/17

The time is ripe for CDFIs to harness the power of the capital markets to exponentially expand the volume of their impact investing work. Historically, financial institutions subject to the Community Reinvestment Act ("CRA") have provided CDFIs with significant resources to invest in low-income communities. The reach of these funds, however, is uneven due to the geographic focus of CRA assessment areas, and they are not of sufficient volume or flexibility to provide the capital necessary to meet all the financing needs of economically underserved communities.

And impact investors have much to gain from aligning with the CDFI industry, as well. CDFIs are positioned to help overcome many of the challenges that have hampered the market's growth. CDFIs can serve as intermediaries for investors in the public debt and equity markets in the same manner they have successfully for banks, foundations and government entities that also sought both financial and social returns. Through investments in CDFIs themselves, impact investors can achieve their social goals with lower transaction costs and risk-adjusted returns, investing in partners that are well versed in achieving, measuring and reporting on impact in underserved communities.

CDFI Overview

CDFIs are private intermediaries that provide capital and technical assistance to communities and people underserved by conventional lending institutions. CDFIs take a number of forms and supply a variety of financial services and capital. Community development credit unions and banks provide retail banking services and investments, loan funds provide financing and technical assistance across a range of economic and community development activities, and venture funds provide equity and equity-like debt to small- and medium-sized businesses.

CDFIs operate in all 50 states, Puerto Rico, the District of Columbia and the territories. As of July 31, 2017, 1,134 CDFIs were certified by the Community Development Financial Institutions Fund ("CDFI Fund").[3] Of these, 575 were loan funds, 316 were credit unions, 139 were banks or thrifts, 87 were depository institution holding companies and 17 were venture capital funds. Roughly 6% of the total, 73, were Native CDFIs.

Figure 1: Breakdown of Certified CDFIs

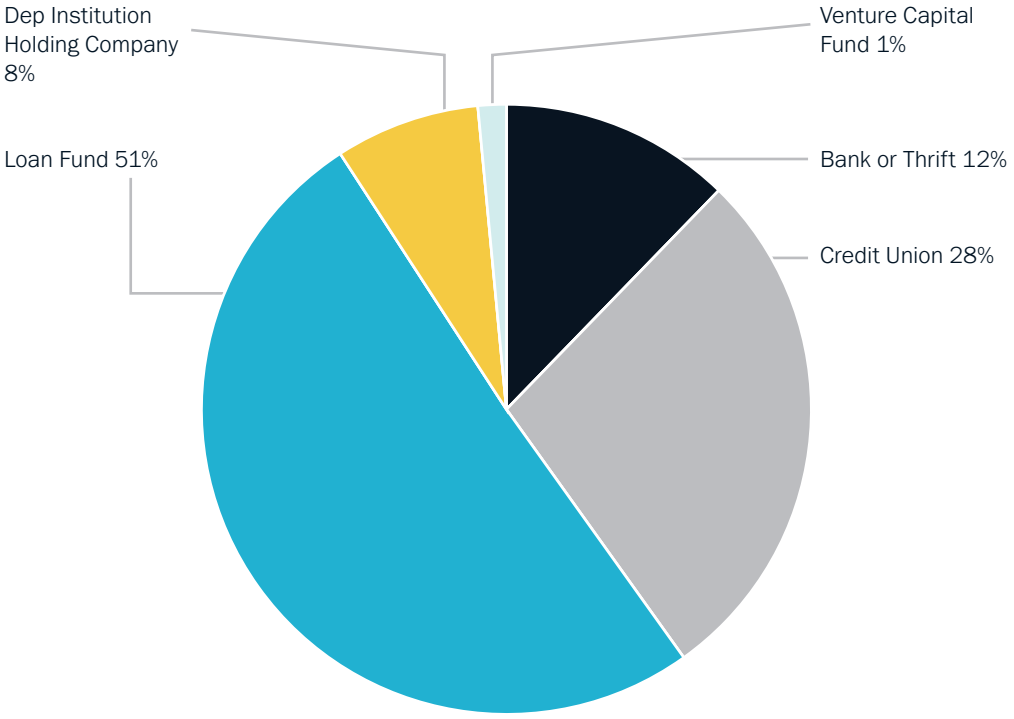

Figure 1, right: Data retrieved from: https://www.cdfifund.gov/Documents/Copy%20of%20CDFI%20List%2010-31-2017.xlsx

To obtain certification from the CDFI Fund, an entity must be a private, nongovernmental entity with community development as its primary mission and financing as its primary business line, serve and be accountable to an eligible target market, and provide technical assistance, known as development services. However, not all CDFIs choose to become certified by the CDFI Fund. There are an estimated 1,000 plus CDFIs operating within the United States that have not sought such certification, yet still have missions of promoting economic growth in low- and moderate-income communities.[4]

In the most recent balance sheet data available from the CDFI Fund as of January 1, 2016, 991 CDFIs had total assets of approximately $108 billion.[5] Banks and thrifts accounted for only 12% of the number of CDFIs but 35% of total assets, with the highest average and median assets of $319 million and $216 million, respectively. Credit unions represented 27% of CDFIs but accounted for the majority of total assets, 52%, with the next highest average and median assets, at $209 million and $53 million, respectively. Loan funds were the most numerous, representing 53% of all CDFIs but only 13% of total assets, with average and median assets of $27 million and $7 million, respectively. Lastly, 14 venture fund CDFIs accounted for 1% of the number and less than 1% of total CDFI assets.

Table 1: CDFI Assets

Financial Institution Types	Total Assets	%	Average Total Assets	Median Total Assets
Bank or Thrift	$37,927,503,000	35%	$318,718,513	$215,786,000
Credit Union	$55,672,216,871	52%	$208,510,176	$52,993,128
Loan Fund	$14,185,047,966	13%	$27,070,702	$7,007,023
Venture Capital Fund	$208,763,372	0%	$14,911,669	$4,661,726
Total	**$107,993,531,209**	**100%**	**$116,876,116**	**$19,731,943**

Table 1, right: Gonzales, O. (2016, June 1). SNAP STAT: Sizing Up Certified CDFIs. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/Snap%20Stat%20June%201,%202016.pdf

Those numbers have increased over the last two years. Recently, CDFI Fund Director Annie Donovan noted the growth in the CDFI industry from fewer than 200 organizations with total assets of $4 billion two decades ago to approximately 1,130 CDFIs with total assets of $136 billion as of the end of third quarter 2017. Despite this growth, CDFI assets account for less than 1% of the $18.3 trillion combined assets of FDIC-insured banks and NCUA-insured credit unions today.[6] With loan funds representing more than half of all certified CDFIs but only 13% of total assets, there is significant opportunity to invest in and expand these impact investment vehicles, in particular.

CDFI History

The CDFI industry traces its deepest roots back to self-help credit initiatives of the 19th century. It began taking its more modern form in the 1960s and 1970s with President Johnson's War on Poverty and the creation of community development corporations ("CDCs") to work in low-income urban and rural communities.[7] Over the following two decades, new credit unions and banks emerged to specifically serve low-income communities, with South Shore Bank being the first in 1973. During this period, the CDFI industry grew steadily but slowly and was capitalized primarily with private monies from individuals and religious organizations.

In the 1990s, the Clinton Administration supported several important initiatives that fueled the industry's expansion. Early in his tenure, President Bill Clinton proposed legislation that was eventually enacted as The Riegle Community Development Banking and Financial Institutions Act of 1994. The Act created the CDFI Fund within the U.S. Treasury Department to provide federal support for CDFIs serving low-income communities through equity investments, capital grants, loans and technical assistance support. Concurrently, the president requested review of the Community Reinvestment Act, which was passed in 1977 to encourage financial institutions to support the credit needs of their local communities. In 1995, this review resulted in regulatory changes that assessed banks and thrifts on their lending in low- and moderate-income communities and recognized loans and investments in CDFIs as counting toward this assessment.

During the 2000s, the CDFI Fund also became responsible for allocating other resources to financial institutions for purposes of promoting economic and community development in low-income areas, including New Markets Tax Credit ("NMTC") and CDFI Bond Guarantee Program ("BGP") allocations. The NMTC Program was authorized under the Community Renewal and Tax Relief Act of 2000 and has been subject to reauthorization since 2006. It provides a credit against federal income taxes for economic development activities and other eligible uses. The CDFI Fund awards allocations to certified Community Development Entities ("CDEs")—financial intermediaries that invest in businesses in low-income communities—through an annual application process. The CDFI Fund has allocated $50.5 billion in tax credit authority to date, including significant awards to CDEs affiliated with CDFIs as well as to those affiliated with conventional banking institutions.[8] The Small Business Jobs Act of 2010 established the BGP to make long-term debt available to CDFIs. Through the program, certain bond issuers, known as "Qualified Issuers," can issue bonds on behalf of approved or "Eligible CDFIs," which use the proceeds to invest in community development projects. The Secretary of the Treasury provides a 100% guarantee on these bonds, which are sold to the Federal Financing Bank (a U.S. government corporation). The CDFI Bond Guarantee Program has guaranteed $1.4 billion in bond issuances to date.[9]

While some investors have been making impact investments for years or even decades, in recent years there has emerged a new collaborative international effort to accelerate the development of a high-functioning market that supports impact investing. While this market is still relatively new, investors are optimistic overall about its development and expect increased scale and efficiency in the future.[10]

—Global Impact Investing Network

CDFI Impact

There are a number of datasets by which we can consider the range of CDFI activity and impact—most notably, analysis from the CDFI Fund, the Opportunity Finance Network ("OFN") and the Urban Institute.

Since 1996, when the CDFI Fund made its first awards, awardees have provided more than $29 billion in loans and investments across the country, including

$6.1 billion in small towns and rural communities, $757 million in Native areas and $726 million to women-owned businesses.[11] In 2014, the CDFI Fund released impact data for 333 awardees for the 10-year period between 2003 and 2012, including:[12]

- Creation of 63,249 permanent jobs and 47,866 construction jobs
- Development or preservation of 159,739 units of affordable rental housing and 23,302 units of affordable for-sale housing
- Development of 515,384 educational facility seats
- Creation of 31,895 child-care facility seats
- Increased healthcare facility capacity by 2,068,932 patient visits
- Increased community-arts facility capacity by 66,402 units
- Creation of 13.4 million square feet of office space, 4.7 million square feet of retail space and 1 million square feet of manufacturing space

In 2016, the most recent year reported, CDFI Fund awardees originated $3.6 billion in loans and investments, financed 13,300 businesses and 33,500 affordable housing units, and served 427,000 individuals with financial literacy or other training. The accompanying map created by the CDFI Fund illustrates where the cumulative $29 billion in CDFI Fund awardee investments have occurred geographically.[13]

Figure 2: Cumulative CDFI Fund Awardee Investments

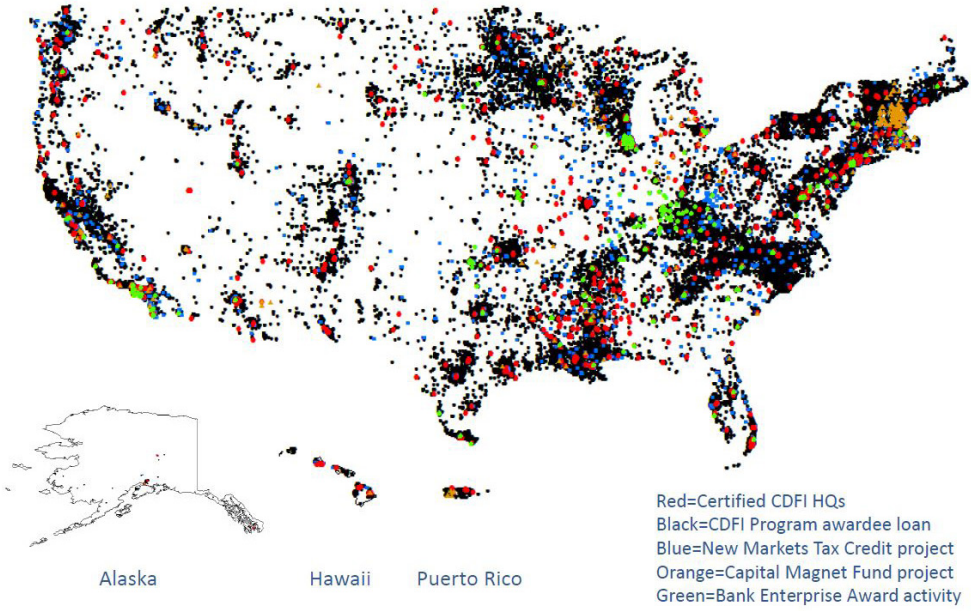

Figure 2, right: Community Development Financial Institutions Fund. (2017). CDFI Fund Awardee Investments—All Programs. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/FINAL%20OFN%20presentation%20092517_all%20program%20investments.pdf

Similar data is available from the Opportunity Finance Network, the CDFI industry's trade association. It reports that since 1985, its member CDFIs—which today include more than 200 organizations—had cumulative financing of $48 billion from their inception through year-end 2015. Seventy-three percent of the people served

by those investments were low-income, 48% were people of color, 48% were female and 25% were located in rural areas. The quantified impacts of this financing include:[14]

- Development or rehabilitation of 1.5 million housing units
- Financing of 192,000 businesses and microenterprises
- Creation of 1 million jobs
- Financing of 9,800 community services organizations in the areas of childcare, education and healthcare

Lastly, a September 2017 study by the Urban Institute found that CDFIs invested $34.3 billion over the five-year period between 2011 and 2015, roughly $6.8 billion a year.[15] A large majority of this investment, 64%, was in underserved or distressed census tracts that had one or more of the following characteristics:

- Unemployment rate of 10% or more
- Poverty rate of 20% or higher
- Majority (50% or more) of residents earning less than 200% of the federal poverty level
- Majority (50% or more) non-white residents

Impact Example—The Conway Center

While the CDFI industry's quantitative impact speaks for itself, a specific project can tell the story behind the numbers. The following example of CDFI investment in action—in this case, the financing provided by Local Initiatives Support Corporation ("LISC"), its affiliates and partners—demonstrates how a game-changing development came about in Washington, D.C.

So Others Might Eat ("SOME") is an interfaith community organization operating in the nation's capital that developed a model for integrating housing, healthcare, jobs and neighborhood retail to generate economic energy and bring much-needed amenities to the Benning Heights neighborhood. SOME is under construction on the $90 million Conway Center, a major public-private partnership with the District of Columbia, that includes a federally qualified health center operated by Unity Health Care, the largest primary care provider in Washington D.C.; affordable and transitional housing; SOME's Center for Employment Training; as well as shops, offices and green space. The site is located across from the Benning Road metro station, making it easy for residents to commute to jobs and access services and for patients from across the city to visit the health center.

We know health outcomes for low-income residents improve as access to care improves. The Conway Center is exemplary of the kind of collaborative development … that will bring both quality affordable housing and excellent healthcare in one setting to an underserved population.[16]

—Kimberlee Cornett, Managing Director, Social Investment Practice, The Kresge Foundation

Figure 3: The Conway Center

Figure 3 right: Rendering of the Conway Center. Retrieved from http://some.org/blog/2015/07/14/some-breaking-ground-on-benning-road-site/

This is the first development in the District to combine affordable housing, job training and healthcare all under one roof. SOME drew on its four decades of experience to assemble a complex mix of public and private funding, including nearly $34 million from LISC's Healthy Futures Fund, which includes both New Markets Tax Credit and Low Income Housing Tax Credit financing in a partnership between LISC, The Kresge Foundation and Morgan Stanley. The completed project will have diverse positive impacts on a community that is a federally designated medically underserved area with a 26% poverty rate and family income that is 35% of the area median. It will include:

- 182 units of affordable housing
- 20 units of transitional housing
- Health services for 8,700 new patients
- 50 new permanent jobs
- Employment training for area residents
- Direct access to public transportation

Remaining Investment Gaps

Despite their substantial impact, CDFIs still provide uneven coverage across the nation, as illustrated by the map below, which overlays poverty levels with CDFI locations.[17]

Figure 4: U.S. Poverty and CDFIs

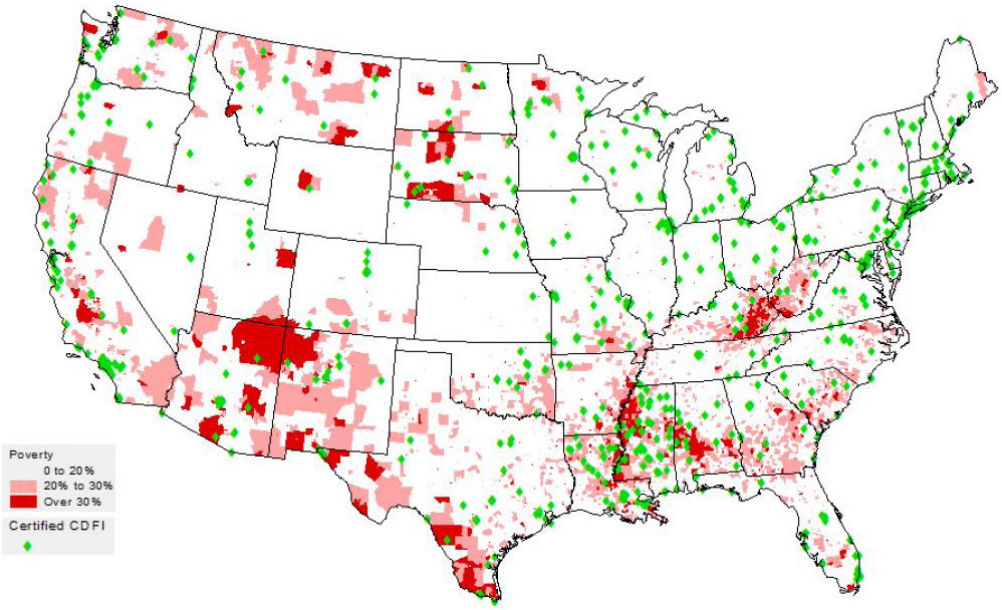

Figure 4, right: Community Development Financial Institutions Fund. (2017). Gaps: Map of areas of poverty and CDFI headquarters. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/FINAL%20OFN%20presentation%20092517_gaps.pdf

As depicted, there are many poverty areas with little or no CDFI representation. In fact, the 2017 study by the Urban Institute found extremely disparate investment across the country.[18] The Urban Institute analyzed data on CDFI lending activities between 2011 and 2015, including 214,490 loans totaling $34.3 billion. While 64% of investment occurred in census tracts with indicators of being underserved or distressed, it was not distributed equally.

Table 2: Breakdown of CDFI Lending for Counties

Percentile of counties	Annual average per person lending under 200 percent of FPL ($)
10th percentile	0
25th percentile	0
50th percentile	7
75th percentile	37
90th percentile	114

Table 2, right: Theodos, B. & Hangen, E. (2017, November 29). Expanding Community Development Financial Institutions: Growing Capacity across the US. Retrieved from Urban Institute: https://www.urban.org/sites/default/files/publication/93396/expanding-community-development-financial-instructions.pdf

One quarter of all U.S. counties saw no annual CDFI lending activity per person under 200% of the federal poverty level over the period. Nearly half of all counties had annual lending activity that amounted to less than $7 per person under 200% of the federal poverty level. In contrast, 10% of counties received $114 per capita or more annually. As the Urban Institute study concluded, "Community development financial institutions have demonstrated that they can serve distressed communities, but they must expand their work to cover all areas in need across the nation."[19]

CDFI Financial Track Record

CDFIs have demonstrated strong financial track records, in line with those of FDIC-insured institutions, despite playing a riskier role in the market. OFN published two 20-year studies in 2015 and 2017, for unregulated and regulated CDFIs, respectively. Unregulated CDFI loan funds surveyed in the 2015 study (1994-2013) had weighted average delinquency rates ranging from a high of 5.8% in the midst of the recession in 2009 to a low of 1.5% in 1999, with an average of 3.0%.[20] Net write-offs ranged from a high of 2.1% in 2010 to a low of 0.4% in 2000, with an average of 0.9%.[21] The data set varied annually from 42 to 184. More recent OFN data as of year-end 2015, cites a 0.4% net write-off rate for approximately 200 member CDFIs, equivalent to that for mainstream financial institutions.[22]

Similarly, OFN's 2017 analysis for regulated CDFIs (1996-2015) found that while CDFI banks had higher average delinquency rates than all banks (5.29% compared to 3.53%), CDFI banks had lower net write-offs (0.65% versus 1.05%).[23] CDFI credit unions also had higher delinquency rates than all credit unions, averaging 2.84% versus 1.01%, but the discrepancy shrank in terms of net write-offs, with CDFI credit unions averaging 0.84% compared to 0.61% for all credit unions.[24] These data sets also varied annually from 8 to 113 and from 40 to 248 for CDFI banks and credit unions, respectively.

As OFN's 2015 study points out, member CDFIs continued to invest in low-income communities even during the contraction in the banking system during the Great Recession. According to the study, while conventional bank lending declined by as much as 16% in the period between 2008 and 2012, OFN members saw their average loans outstanding increase slightly during the period, thus providing a counter-cyclical force to the more general downturn.[25] CDFIs' financial performance is particularly noteworthy in this light. While delinquency rates may be higher than those of conventional banking institutions, the ability of CDFIs to be more patient lenders and work with borrowers to weather financial storms, has translated into comparable write-off rates.

Evolution of CDFI Funding Sources

CDFIs are intermediaries that depend on third-party capital to provide financing and technical assistance to low-income individuals and communities not adequately served by the conventional banking system.

Growth of CRA-Related Sources

Regulated CDFI banks and credit unions are unsurprisingly funded primarily by deposits. As discussed earlier, CDFI loan funds were financed initially by individuals and religious institutions that supported the mission of community development lenders. This was true until the mid-1990s when these sources still represented more than half of all assets. Then, as a result of regulatory changes to the Community Reinvestment Act in 1995, investments from banks and other traditional lenders became an important part of CDFI loan funds' capital base. Investments from CRA-motivated investors fueled industry growth over the following two decades.

The 2015 OFN study captured this changing capital landscape for CDFI loan funds over the 20-year period between 1994 and 2013. The data set varied annually, but illustrates the robust growth in CDFI loan funds and provides a large enough sample size to demonstrate CRA's growing impact on sources of capital. In 2013, of the $3.369 billion in borrowed and equity equivalent ("EQ2") funding sources for the 184 surveyed CDFIs, $1.746 billion was sourced from banks, thrifts and credit unions, $413 million from foundations, $289 million from the federal government, $246 million from non-depository financial institutions, $129 million from religious institutions, $123 million from individuals and $523 million from other sources, including corporations, state and local governments, and national intermediaries. This funding snapshot is radically different from that of 20 years earlier, as illustrated in the graph below, which uses average distributions for CDFIs, regardless of size:

Figure 5: Average Distribution of Sources of Borrowed Funds for Loan Funds, 1994-2013

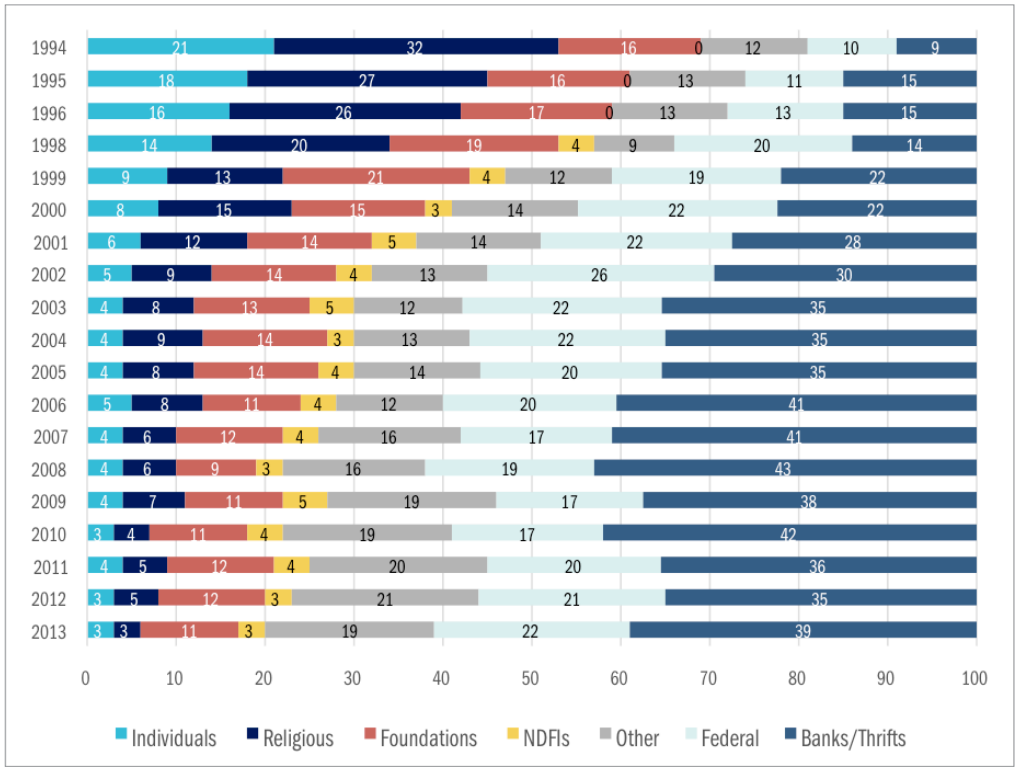

Figure 5, right: Opportunity Finance Network. (2015, November 10). 20 Years of Opportunity Finance: 1994-2013: An Analysis of Trends and Growth. p. 13.

The most dramatic changes are the reduction in individual and religious sources from a combined 53% in 1994 to only 6% in 2013 and the CRA-motivated increase in funding from banks, thrifts and credit unions after the regulatory changes of 1995. Bank funding increased in absolute dollar terms from $12.7 million for 42 OFN members surveyed in 1994 to $1.7 billion for 184 members in 2013 and grew as a percentage of total funding sources from 9% to 39% over the period.

Foundation and federal government spending represent the next largest sources of funding, with foundation funding falling as a percentage of the total from roughly 15% to 20% of total assets in the 1990s to just above 10% since the Great Recession. Federal government financing (which excludes grant funds awarded by the CDFI Fund) grew from 10% of total sources to approximately 20% by the end of the period, including debt financing from the U.S. Department of Housing and Urban Development, the U.S. Department of Agriculture, the U.S. Small Business Administration and the U.S. Treasury Department.

These general trends are supported by fiscal year 2015 data the CDFI Fund recently released for 248 loan funds that are CDFI Fund awardees.[26] In aggregate dollars, depository institutions provided 36% of all funding, federal, state and local government provided 19% and philanthropy provided 12%, in addition to several other smaller funding sources.

Limits to CRA-Lending

While lending from depository institutions has fueled the CDFI industry's expansion, an increasing number of constraints associated with this source suggest further diversification may be necessary for future growth. As highlighted by the findings of the Urban Institute study and widely noted by community development practitioners, the basic construct of CRA favors certain geographies with more extensive bank deposit bases over others. Furthermore, CRA-related funding depends on the financial performance of banks as well as their regulatory requirements, which can fluctuate and evolve over time. For example, during the Great Recession, banks pulled back from direct lending to CDFIs as well as from later-stage financing for community development projects that constituted the take-out for CDFI financing. This contraction forced CDFIs to either find other funding sources or similarly contract their own investment activity.

Post-recession, as the market began to soften and banks began to lend again, the Dodd-Frank Wall Street Reform and Consumer Protection Act continued to limit bank appetite for CDFI investments due to high reserve requirements associated with unsecured lending. The current low interest rate environment has further exacerbated bank capital reserve requirements and pressured financial institutions to provide shorter-term, variable-rate financing in order to meet internal bank hurdle rates necessary to cover capital charges. Moreover, capital reserve pressures have caused individual banks to bump up against exposure limits for some of the larger CDFI loan funds. In addition to passing interest rate risk onto CDFIs, the shorter maturities make it challenging for CDFIs to employ this source to meet the longer-term financing needs of many community development projects.

New Sources of Capital

The result is an increasing mismatch between CDFI sources and uses of funds, with post-recession demand for community development loans increasing in number, size and duration. As such, many CDFIs are exploring new ways to diversify their capital sources to drive further growth and impact in underserved communities.

One important new source of CDFI debt capital has been the Federal Home Loan Bank ("FHLB") system. In 2010, the Federal Housing Finance Agency ("FHFA") amended its membership regulations to allow certified CDFIs to become members of the FHLB. FHLB membership provides the opportunity for CDFIs to access low-cost capital with longer terms. In addition to cash advances, membership benefits include dividend earnings on capital investments, access to other financial products and services as well as participation in the Affordable Housing Program ("AHP"), which provides grants to eligible affordable housing projects. As of September 30, 2017, there were 48 CDFI members of the FHLB system.

The U.S. Treasury's Bond Guarantee Program has also become an important new source of long-term, fixed-rate debt for the CDFI industry. Since 2013, the CDFI Fund has approved $1.4 billion in bond issuance through three Qualified Issuers on behalf of 26 Eligible CDFIs. LISC was part of the inaugural $325 million BGP allocation, partnering with Enterprise Community Loan Fund through Bank of America CDFI Funding Corporation's $100 million issuance. Awards for the five rounds to date are included in Table 3 (following page).

FHLB membership and the BGP have provided CDFIs the opportunity to diversify sources of capital. One limitation of both sources, however, is that they require CDFIs to pledge collateral for borrowed capital. This requirement in effect subordinates traditional sources of unsecured, recourse debt (bank and philanthropic capital), thus limiting extensive borrowing from these newer sources. The evolution of funding sources, particularly for CDFI loan funds, must continue if they are to scale their work in underserved communities at a magnitude commensurate with demand.

CDFIs have enjoyed broad bipartisan support for decades. Now, by finding new sources of private capital, CDFIs are able to amplify their impact. The model is a proven success and will only increase reach as private money empowers CDFI investment to go further.[27]

—Mark Zandi, Reinvestment Fund's Board Vice-Chair, and Chief Economist, Moody's Analytics.

Table 3, right: Retrieved from Community Development Financial Institutions Fund, U.S. Treasury: https://www.cdfifund.gov/Documents/Forms/Awards.aspx

Table 3: Bond Guarantee Program Awards

Year	Qualified Issuer	Eligible CDFI	$Millions
	Opportunity Finance Network	Clearinghouse CDFI	$100
	Community Reinvestment Fund	The Community Development Trust	$125
	Bank of America	Enterprise Community Loan Fund	$50
		Local Initiatives Support Corporation	$50
2013	**Sub-Total**		**$325**
	Community Reinvestment Fund	Capital Impact Partners	$55
		IFF	$25
		Low Income Investment Fund	$65
		Reinvestment Fund	$55
2014	**Sub-Total**		**$200**
	Community Reinvestment Fund	Raza Development Fund	$100
	Opportunity Finance Network	Clearinghouse CDFI	$100
	Opportunity Finance Network	Bridgeway Capital	$15
		Chicago Community Loan Fund	$28
		Citizens Potawatomi CDC	$16
		Community Loan Fund of New Jersey	$28
		Community Ventures Corporation	$15
		Federation of Appalachian Housing Enterprises	$15
		Kentucky Highlands Investment Corporation	$10
2015	**Sub-Total**		**$327**
	Community Reinvestment Fund	Capital Impact Partners	$40
		Low Income Investment Fund	$50
		Reinvestment Fund	$75
	Bank of America	Self-Help Ventures Fund	$100
2016	**Sub-Total**		**$265**
	Community Reinvestment Fund	Aura Mortgage Advisors	$100
	Opportunity Finance Network	Building Hope	$25
		Coastal Enterprises, Inc.	$20
		Community First Fund	$10
		Florida Community Loan Fund	$30
		Greater Minnesota Housing Fund	$10
		Homewise, Inc	$15
		Housing Trust Silicon Valley	$25
		Impact Seven	$10
2017	**Sub-Total**		**$245**
	Total		**$1,362**

CDFI Impact Investing Opportunity

Overview

Today, many investors that have not historically been sources of capital for CDFIs are looking for opportunities to invest in organizations that can provide impact metrics in discrete programmatic areas while also earning a risk-appropriate, or at times, below-market rate of return.

The May 2017 Annual Impact Investor Survey, the seventh in the Global Impact Investing Network series, contains survey results from 209 impact investors. In 2016, these respondents invested $22.1 billion through 8,000 investments and managed $114 billion in impact investment assets. It is considered the minimum size of the market.[28] Roughly, $45 billion, or 40%, represents investments in the U.S. and Canada.[29] Respondents included fund managers (67%), foundations (11%), banks (4%) and a variety of other investors, including CDFIs (7%).[30] The GIIN reports that "Notably, CDFIs in our sample do not tend to allocate assets under management through public markets (either debt or equity)."[31]

Yet, as the survey also found, there are several challenges that have precluded certain investors—high net worth individuals, institutional investors, financial and wealth advisors and philanthropic organizations—from investing. The challenges cited include:[32]

- Appropriate capital across the risk/return spectrum
- Suitable exit options
- High-quality investment opportunities (fund or direct) with track record
- Data on performance
- Sophistication of impact measurement practices

The Opportunity

For investors seeking opportunities in historically underserved communities, CDFIs are a natural investment vehicle that can overcome many of the challenges listed above. CDFIs report on impact far more intentionally than other businesses and funds—to their boards, public funding sources and other private investors. And the work of CDFIs spans numerous sectors, including housing, financial services, healthcare and education, among others, that can appeal to a diversity of investors.

The industry has also evolved in terms of performance transparency. In 2004, the Opportunity Finance Network launched the CDFI Rating and Assessment System ("CARS") to provide an objective assessment of a CDFI's financial strength, performance and impact. In 2012, CARS was spun off as a separate entity, Aeris, which rates or reviews approximately 150 community development loan funds. In addition to Aeris, Standard & Poor's Global Ratings ("S&P") has recently developed ratings criteria for CDFIs. In 2015, Clearinghouse CDFI became the first CDFI to obtain a rating from S&P, with four other CDFIs following suit within two years: Housing Trust Silicon Valley, Reinvestment Fund, LISC and Capital Impact Partners. Such third-party assessments of financial strength and impact solve another of the challenges facing the impact investing market and should facilitate broader investment in CDFI loan funds.

Industry Examples—Accessing the Capital Markets

The Great Recession had a tremendous impact on the size and asset quality of LISC's loan portfolio. At the end of 2007, LISC's portfolio was at the then historic high of $225 million, with a delinquency rate of 3%. During the downturn, market disruptions caused LISC's delinquency rate to exceed 8%, requiring a more intensive focus on asset management. At the same time, LISC experienced decreased demand from its borrowers, resulting in a portfolio decline to $130 million at the end of 2012.

In 2013, LISC began to feel the effects of the improving market and has since experienced increasing demand for a broader range of loan products throughout its national footprint, with the portfolio growing to over $350 million today. Despite the success story of working through a pre-recession portfolio and increasing the portfolio back to a financially sustainable level, LISC identified a new challenge: capitalization. There simply was not enough CRA-motivated debt capital available to meet the demand for financing in all of LISC's markets.

As previously noted, the post-recession demand was not only a mismatch in terms of volume, projects also required longer-term financing and involved wider geographies. This type of demand did not sync well with LISC's historic CRA-motivated lenders, or their move toward shorter-term, variable-rate debt. Adding to the capital challenge, LISC had reached exposure limits with its larger borrowing relationships, which have historically been its more geographically and programmatically flexible sources of capital. The need to diversify LISC's capital stack became clear in order to keep pace with loan demand.

This bond deal is the next step in the evolution of community development financing. Now, institutions like LISC have the scale and track record they need to become public bond issuers.[33]

—Robert Rubin, Former U.S. Treasury Secretary, LISC Board Chairman

In September 2016, LISC became one of a handful of CDFIs to be rated by S&P and received a 'AA' rating. The decision to be rated by one of the financial rating agencies was a strategy aimed at providing LISC access to the capital markets. The intention was to use the rating to attract new investors that might not know the CDFI industry but that understand an investment grade rating from S&P. After exploring several options, LISC selected a bond underwriter and worked towards a public offering of debt securities.

In April 2017, LISC became the first CDFI to access the capital markets on a rated basis by raising $100 million via a public offering of taxable bonds, with tranches of 5-, 10- and 20-year maturities. In addition to being rated 'AA' by S&P, the bonds were unsecured and required no financial covenants. The offering was oversubscribed, and the bonds were purchased by investors that had not previously provided financing to LISC. LISC's mission and track record of financial and impact performance were central points in the offering. The purchasers were primarily financial service and asset management institutions, adding diversity to LISC's existing capital base.

This successful public offering helped LISC achieve several significant objectives:

- Diversification of LISC's sources of capital, moving beyond CRA-motivated investors
- Access to flexible capital with no geographic or programmatic restrictions
- Elimination of interest rate risk by fixing the interest rate on more than $75 million of variable-rate debt
- Increased ability to meet existing demand for longer-term loan products
- Diversification of LISC's loan portfolio by product type

Other S&P-rated CDFI loan funds also saw the benefits of accessing the capital markets to grow their portfolios and scale their impact. In May 2017, Reinvestment Fund issued $50 million in 'AA-'-rated general obligation bonds with seven- and eight-year maturities. In October 2017, Capital Impact Partners announced launch of up to $100 million 'AA'-rated fixed income notes with maturities ranging from one to 10 years. It's important to note that these more recent initiatives built upon the earlier work of Calvert Social Investment Foundation, recently renamed Calvert Impact Capital, which developed an unrated fixed income product, the Calvert Community Investment Note, in the mid-1990s, initially to enable individual investments in CDFIs. This drive continues today, with several CDFIs contemplating a variety of additional security offerings through the capital markets.

Conclusion

The CDFI industry has grown dramatically since the first community development banks were established in the 1970s, and the industry's impact is indisputable. However, many communities throughout the country, both urban and rural, continue to struggle due to lack of investment for broader, faster physical and economic development and growth. CDFIs are proven investment intermediaries that can direct resources to these communities and drive continued positive impact that will not only bolster the communities themselves, but also fuel the larger national economy. However, the industry needs new sources of capital to play its role more effectively. CDFI assets remain at less than 1% of the $18.3 trillion combined assets of FDIC-insured banks and NCUA-insured credit unions today. Furthermore, as the Urban Institute study demonstrated, coverage of low-income communities across the country is neither equal nor equitable.

CDFIs are a high performing asset class with a 50-year track record of performance commensurate with that of FDIC-insured financial institutions. With Aeris and S&P rating methodologies now in place, CDFIs have begun to access the capital markets. The task at hand is to grow this access to ensure proper pricing for CDFI borrowers and liquidity for CDFI investors. With the emerging collaborative around impact investing, this growth should be possible. CDFIs can overcome several of the major hurdles associated with impact investing while providing reliable financial and impact returns for investors.

About LISC

What We Do

With residents and partners, LISC forges resilient and inclusive communities of opportunity across America—great places to live, work, visit, do business and raise families.

Strategies We Pursue

- Strengthen existing alliances while building new collaborations to increase our impact on the progress of people and places
- Develop leadership and the capacity of partners to advance our work together
- Equip talent in underinvested communities with the skills and credentials to compete successfully for quality income and wealth opportunities
- Invest in businesses, housing and other community infrastructure to catalyze economic, health, safety and educational mobility for individuals and communities
- Drive local, regional, and national policy and system changes that foster broadly shared prosperity and well-being

About the Authors

Elise Balboni serves as LISC's Senior Vice President for Lending, overseeing LISC's loan origination and asset management functions. Previously, she served as a consultant for nonprofits and foundations in the area of charter school facility financing and as LISC's Vice President of Education Programs, where she had responsibility for oversight of LISC's charter school financing unit. Prior to joining LISC, Ms. Balboni served as an Associate in municipal finance at CS First Boston and as Budget Director for the Massachusetts Senate Committee on Ways and Means. Ms. Balboni received her B.A. from Harvard University and her M.B.A. from the Stanford Graduate School of Business.

Christina Travers serves as LISC's Vice President for Capital Strategies and Treasurer. She maintains relations with LISC's lenders and ensures that funds are available when needed and are used for permitted purposes. She also oversees the servicing of LISC's loan portfolio and is a member of LISC's Credit, Loan Watch and Portfolio Monitoring committees. Prior to joining LISC, Ms. Travers worked as a Policy Analyst at New York City's Department of Health and Mental Hygiene. She is also a Returned Peace Corps Volunteer, completing her service in Zambia, Africa. Ms. Travers earned her B.S. in Biology from Duke University and her M.S. in Urban Policy and Management, with a concentration in Community Development Finance, from The New School in New York City.

Bibliography

AlHusseini, I. (2017, April 13). 10 Reasons Why You Should Consider Impact Investing. Retrieved from Forbes: https://www.forbes.com/sites/forbesfinancecouncil/2017/04/13/10-reasons-why-you-should-consider-impact-investing/#32c532de7a11

CDFI Coalition. (2017). What are CDFIs? Retrieved from CDFI Coalition: http://www.cdfi.org/about-cdfis/what-are-cdfis/

Community Development Financial Institutions Fund. (2017, September 29). Annual CIIS Public Data Release on CDFI Program Recipient Reporting. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/news/Pages/news-detail.aspx?NewsID=271&Category=Press%20Releases

Community Development Financial Institutions Fund. (2017). CDFI Bond Guarantee Program. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/programs-training/Programs/cdfi-bond/Pages/default.aspx

Community Development Financial Institutions Fund. (2017). CDFI Certification. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx

Community Development Financial Institutions Fund. (2017, March 7). Introduction to the New Markets Tax Credit Program. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/2017%20Introduction%20to%20NMTC%20Program%20Presentation%20For%20Release.pdf

Donovan, A. (2017, September 28). Keynote Address by Director Annie Donovan at the 2017 Opportunity Finance Network Conference. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/Pages/speeches-detail.aspx?SpeechID=49&Category=Speeches

Global Impact Investing Network. (2017). What You Need to Know About Impact Investing. Retrieved from Global Impact Investing Network: https://thegiin.org/impact-investing/need-to-know/

Global Impact Investing Network. (2017, May). Annual Impact Investor Survey. Retrieved from Global Impact Investing Network: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwik9a6vs-nXAhWxlOAKHUeLCeAQFggpMAA&url=https%3A%2F%2Fthegiin.org%2Fassets%2FGIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf&usg=AOvVaw28_M0hmdx3sviWodCzkG-o

Gonzales, O. (2016, June 1). SNAP STAT: Sizing Up Certified CDFIs. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/Snap%20Stat%20June%201,%202016.pdf

Local Initiatives Support Corporation. (2015, July 29). Meeting at the intersection of jobs, health and housing. Retrieved from Local Initiatives Support Corporation: http://www.lisc.org/our-stories/story/meeting-at-the-intersection-of-jobs-health-and-housing

Morgan StanleyVoice. (2017, August 2). A New Asset Class In The Making. Retrieved from Forbes: https://www.forbes.com/sites/morganstanley/2017/08/02/a-new-asset-class-in-the-making/

Mudaliar, A., Schiff, H., Bass, R., & Dithrich, H. (2017, May). Annual Impact Investor Survey. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

Opportunity Finance Network. (2015, November 10). 20 Years of Opportunity Finance: 1994-2013: An Analysis of Trends and Growth. Retrieved from Opportunity Finance Network: https://ofn.org/sites/default/files/OFN_20_Years_Opportunity_Finance_Report.pdf

Opportunity Finance Network. (2015). CDFIs Provide Opportunity. For All. Retrieved from Opportunity Finance Network: http://ofn.soscale.com:8080/sites/default/files/OFN_Infographic_2014_Letter_Printable_0.pdf

Opportunity Finance Network. (2017, January 31). 20 Years of CDFI Banks and Credit Unions: 1996-2015: An Analysis of Trends and Growth. Retrieved from Opportunity Finance Network: https://ofn-drupal-pub.s3.amazonaws.com/s3fs-public/OFN_CDFI_CreditUnion_LongStudy_FINAL.pdf

Reinvestment Fund. (2017, May 2). Reinvestment Fund Issues $50 Million in Impact Investment Bonds. Retrieved from Reinvestment Fund: https://www.reinvestment.com/news/2017/05/02/reinvestment-fund-issues-50-million-impact-investment-bonds/

Swack, M., Hangen, E., & Northrup, J. (2014, August). CDFIs Stepping into the Breach: An Impact Evaluation—Summary Report. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/CDFIs%20Stepping%20into%20the%20Breach%20Impact%20Evaluation%20Report.pdf

Theodos, B., & Hangen, E. (2017, November 29). Expanding Community Development Financial Institutions: Growing Capacity across the US. Retrieved from Urban Institute: https://www.urban.org/sites/default/files/publication/93396/expanding-community-development-financial-instructions.pdf

Endnotes

[1] AlHusseini, I. (2017, April 13). 10 Reasons Why You Should Consider Impact Investing. Retrieved from Forbes: https://www.forbes.com/sites/forbesfinancecouncil/2017/04/13/10-reasons-why-you-should-consider-impact-investing/#32c532de7a11

[2] Donovan, A. (2017, September 28). Keynote Address by Director Annie Donovan at the 2017 Opportunity FinanceNetwork Conference. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/Pages/speeches-detail.aspx?SpeechID=49&Category=Speeches

[3] Retrieved from: https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx

[4] Opportunity Finance Network. (2015, November 10). 20 Years of Opportunity Finance: 1994-2013: An Analysis of Trends and Growth. p. 5.

[5] Gonzales, O. (2016, June 1). SNAP STAT: Sizing Up Certified CDFIs. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/Snap%20Stat%20June%201,%202016.pdf

[6] Donovan, A. (2017, September 28). Keynote Address by Director Annie Donovan at the 2017 Opportunity Finance Network Conference. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/Pages/speeches-detail.aspx?SpeechID=49&Category=Speeches

[7] Retrieved from: http://www.cdfi.org/about-cdfis/what-are-cdfis/

[8] Community Development Financial Institutions Fund. (2017, March 7). Introduction to the New Markets Tax Credit Program. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/Documents/2017%20Introduction%20to%20NMTC%20Program%20Presentation%20For%20Release.pdf

[9] Community Development Financial Institutions Fund. (2017). CDFI Bond Guarantee Program. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/programs-training/Programs/cdfi-bond/Pages/default.aspx

[10] Global Impact Investing Network. (2017). What You Need to Know About Impact Investing. Retrieved from Global Impact Investing Network: https://thegiin.org/impact-investing/need-to-know/

[11] Donovan, A. (2017, September 28). Keynote Address by Director Annie Donovan at the 2017 Opportunity Finance Network Conference. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/Pages/speeches-detail.aspx?SpeechID=49&Category=Speeches

[12] Office of Financial Strategies and Research, Community Development Financial Institutions Fund, U.S. Department of the Treasury. (2014, August). CDFIs Stepping into the Breach: An Impact Evaluation – Summary Report. p. 21.

[13] Donovan, A. (2017, September 28). Keynote Address by Director Annie Donovan at the 2017 Opportunity Finance Network Conference. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/Pages/speeches-detail.aspx?SpeechID=49&Category=Speeches

[14]Opportunity Finance Network. (2015). CDFIs Provide Opportunity. For All. Retrieved from Opportunity Finance Network: http://ofn.soscale.com:8080/sites/default/files/OFN_Infographic_2014_Letter_Printable_0.pdf

[15]Theodos, B., & Hangen, E. (2017, November 29). Expanding Community Development Financial Institutions: Growing Capacity across the US. Retrieved from Urban Institute: https://www.urban.org/sites/default/files/publication/93396/expanding-community-development-financial-instructions.pdf

[16]Local Initiatives Support Corporation. (2015, July 29). Meeting at the intersection of jobs, health and housing. Retrieved from Local Initiatives Support Corporation: http://www.lisc.org/our-stories/story/meeting-at-the-intersection-of-jobs-health-and-housing

[17]Donovan, A. (2017, September 28). Keynote Address by Director Annie Donovan at the 2017 Opportunity Finance Network Conference. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/Pages/speeches-detail.aspx?SpeechID=49&Category=Speeches

[18]Theodos, B., & Hangen, E. (2017, November 29). Expanding Community Development Financial Institutions: Growing Capacity across the US. Retrieved from Urban Institute: https://www.urban.org/sites/default/files/publication/93396/expanding-community-development-financial-instructions.pdf

[19]Theodos, B., & Hangen, E. (2017, November 29). Expanding Community Development Financial Institutions: Growing Capacity across the US. Retrieved from Urban Institute: https://www.urban.org/sites/default/files/publication/93396/expanding-community-development-financial-instructions.pdf

[20]Opportunity Finance Network. (2015, November 10). 20 Years of Opportunity Finance: 1994-2013: An Analysis of Trends and Growth. p. 17.

[21]Opportunity Finance Network. (2015, November 10). 20 Years of Opportunity Finance: 1994-2013: An Analysis of Trends and Growth. p. 17.

[22]Opportunity Finance Network. (2015). CDFIs Provide Opportunity. For All. Retrieved from Opportunity Finance Network: http://ofn.soscale.com:8080/sites/default/files/OFN_Infographic_2014_Letter_Printable_0.pdf

[23]Opportunity Finance Network. (2017, January 31). 20 Years of CDFI Banks and Credit Unions: 1996-2015: An Analysis of Trends and Growth. p. iv.

[24]Opportunity Finance Network. (2017, January 31). 20 Years of CDFI Banks and Credit Unions: 1996-2015: An Analysis of Trends and Growth. p. iv.

[25]Opportunity Finance Network. (2015, November 10). 20 Years of Opportunity Finance: 1994-2013: An Analysis of Trends and Growth. p. 1.

[26]Community Development Financial Institutions Fund. (2017, September 29). Annual CIIS Public Data Release on CDFI Program Recipient Reporting. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/news-events/news/Pages/news-detail.aspx?NewsID=271&Category=Press%20Releases

[27]Reinvestment Fund. (2017, May 2). Reinvestment Fund Issues $50 Million in Impact Investment Bonds. Retrieved from Reinvestment Fund: https://www.reinvestment.com/news/2017/05/02/reinvestment-fund-issues-50-million-impact-investment-bonds/

[28]Mudaliar, A., Schiff, H., Bass, R., & Dithrich, H. (2017, May). Annual Impact Investor Survey. p. xi. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

[29]Mudaliar, A., Schiff, H., Bass, R., & Dithrich, H. (2017, May). Annual Impact Investor Survey. p. xiii. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

[30]Mudaliar, A., Schiff, H., Bass, R., & Dithrich, H. (2017, May). Annual Impact Investor Survey. p. xi. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

[31]Mudaliar, A., Schiff, H., Bass, R., & Dithrich, H. (2017, May). Annual Impact Investor Survey. p. 29. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

[32]Mudaliar, A., Schiff, H., Bass, R., & Dithrich, H. (2017, May). Annual Impact Investor Survey. p. 10. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

[33]Morgan StanleyVoice. (2017, August 2). A New Asset Class In The Making. Retrieved from Forbes: https://www.forbes.com/sites/morganstanley/2017/08/02/a-new-asset-class-in-the-making/